

State of Maine
2016-2017
Governor's Budget
Overview

Submitted by

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Governor

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Economic Outlook and Forecast

Background

The Consensus Economic Forecasting Commission was originally established by Executive Order on May 25, 1992, in order to provide the Governor, the Legislature and the Revenue Forecasting Committee with analyses, findings and recommendations for state economic assumptions to be used in developing state revenue forecasts. Creation of the commission was in response to a recommendation of the Special Commission on Government Restructuring in 1991 to establish an independent, consensus process for state economic and revenue forecasting. Public Law 1995, chapter 368 enacted in statute the Consensus Economic Forecasting Commission, maintaining both the structure and intent of the original Executive Order.

The commission consists of five members having professional credentials and demonstrated expertise in economic forecasting. Members of the commission are appointed as follows: two members appointed by the Governor; one member recommended for appointment to the Governor by the President of the Senate; one member recommended for appointment to the Governor by the Speaker of the House of Representatives; and one member appointed by the other members of the commission. One member of the commission must be selected by a majority vote of the other commission members to serve as the chair of the commission.

The commission is required to develop two year and four year economic forecasts for the State of Maine. In performing this duty, the commission is required by statute to meet twice each fiscal year. No later than April 1st and November 1st of each odd-numbered year and no later than February 1st and November 1st of each even-numbered year the commission shall submit to the Governor, the Legislative Council, the Revenue Forecasting Committee and the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs a report that presents the commission's findings and recommendations for adjustments to the economic assumptions for the current fiscal biennium. In each report the commission shall fully describe the methodology employed in reaching its recommendations. The Revenue Forecasting Committee is required to use the economic assumptions and forecast of the commission in developing its four-year revenue projections.

Findings

The Maine Consensus Economic Forecasting Commission (CEFC) convened on October 24, 2014, to review and revise the forecast through 2017 and newly forecast 2018 and 2019.

National and state economic indicators continue to show improvement since the CEFC met in January 2014. Nationwide, consumer sentiment and small business optimism are up over year-ago levels. According to preliminary estimate, personal income in Maine grew 3.4% year-over-year in the first half of 2014, while wage and salary income grew 2.3% over the same period. The Consumer Price Index was 1.7% higher in August 2014 than it was in August 2013.

The price of crude oil remained fairly steady in the third quarter of 2014 to around \$103 per barrel. Existing single-family home sales in Maine were up 6.6% in September 2014 compared to September 2013 and housing permits for the September 2013 to August 2014 year were 6.6% higher than the previous 12-month period. The median home price in the Portland Metropolitan Statistical Area (York, Cumberland, and Sagadahoc Counties) decreased 2.6% year-over-year in the second quarter of 2014. Mortgage delinquency rates have been declining but at a slower pace than nationally. The foreclosure rate in Maine was 0.57% in the second quarter of 2014 and remained above the national rate for an eighth straight quarter.

Total personal income growth was revised downward for 2014-2017, while wage and salary income growth was revised downward in 2014 but upward in 2015-2017. Both of these forecasts were taken from the LowPop scenario. Inflation, as measured by the Consumer Price Index (CPI), was revised upwards for 2014-2017.

The CEFC members continued to believe that the national forecasts are likely overly optimistic in their population and employment projections for the state, as we continue to be challenged by the state's aging population and lack of population growth. The new forecast relies on the LowPop scenario designed to address these concerns. The LowPop scenario is based on the Moody's Analytic baseline with adjustments that lowered the population and employment growth factors to a level the CEFC felt was attainable.

The table below provides the forecast's major indicators. A more detailed list of economic assumptions, which are incorporated into the revenue forecasting models used by the Revenue Forecasting Committee, is on the following pages.

Calendar Years	2013	2014	2015	2016	2017	2018	2019
Wage & Salary Employment (Annual Percentage Change)							
CEFC Forecast 02/2014	0.5	0.7	0.7	0.7	0.5		
CEFC Forecast 11/2014	0.6	1.0	0.9	0.6	0.4	0.1	0.1
Personal Income (Annual Percentage Change)							
CEFC Forecast 02/2014	2.3	4.3	3.7	4.0	4.2		
CEFC Forecast 11/2014	4.6	3.5	3.2	4.1	3.9	4.2	3.8
Wage and Salary Income (Annual Percentage Change)							
CEFC Forecast 02/2014	2.4	3.4	3.4	3.4	3.4		
CEFC Forecast 11/2014	2.2	2.9	3.9	4.0	3.6	3.4	3.0
CPI (Annual Percentage Change)							
CEFC Forecast 02/2014	1.5	1.6	1.7	1.9	1.9		
CEFC Forecast 11/2014	1.5	1.8	2.1	2.4	2.8	2.9	2.6

Revenue Outlook and Forecast

Background

The Revenue Forecasting Committee was established by Executive Order on May 25, 1992, in order to provide the Governor, the Legislature and the State Budget Officer with analyses and recommendations related to the projection of General Fund and Highway Fund revenues. Creation of the committee was in response to the recommendation of Special Commission on Government Restructuring to develop independent and consensus based revenue projections. Public Law 1995, chapter 368 enacted in statute the Revenue Forecasting Committee. This law provided that membership on the committee would include the State Budget Officer, the State Tax Assessor, the State Economist, the Director of the Legislative Office of Fiscal and Program Review and an economist on the faculty of the University of Maine System selected by the Chancellor.

Public Law 1997, chapter 655 expanded the membership of the committee to include an analyst from the Legislative Office of Fiscal and Program Review designated by the Director of that office. Public Law 2011, chapter 655 replaced the State Tax Assessor with the Associate Commissioner for Tax Policy as a member of the Committee. The revenue projections of the committee also would no longer be advisory but would become the actual revenue projections used by the Executive Branch in setting budget estimates and recommendations and out-biennium budget forecasts for both the General Fund and the Highway Fund. The State Budget Officer also was empowered to convene a meeting of the committee to review any new data that might become available, affecting the revenue projections for the General Fund and the Highway Fund.

The committee is required to meet at least four times a year or when called by a majority vote of the committee members, or at the request of the State Budget Officer. The committee is required to develop four year revenue forecasts for the General Fund and the Highway Fund, or other funds of the state. No later than December 1st and March 1st (May 1st during odd-numbered years) annually the committee must submit to the Governor, the Legislative Council, the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs and the State Budget Officer its findings, analyses and recommendations for General Fund and Highway Fund revenues. The revenue forecasts are developed using econometric models for Sales and Use Tax, Individual Income Tax, Corporate Income Tax, Fuel Tax and Cigarette Tax. Forecasts for the remaining revenue lines are developed using trend data, national economic assumptions, department subject matter experts and operational analysis (e.g., net profit from liquor sales).

Findings – Major Revenue Sources

Overview – In November 2014, the Consensus Economic Forecasting Commission (CEFC) provided its forecasts for the major economic variables that were used as inputs to Maine Revenue Services' tax models to help project revenue from the major taxes. National and state economic indicators suggest continued improvement in economic conditions since the CEFC met in January 2014. In their November 2014 report, the CEFC assumes the economy will grow at a slightly more robust pace over the next five years. Personal income in Maine grew 3.4% year-over-year in the first half of 2014, while wage and salary income grew 2.7% over the same period. The Consumer Price Index was 1.7% higher in August 2014 than it was in August 2013. The Revenue Forecasting Committee (RFC) after taking into consideration the CEFC forecast projected stronger revenue growth in the next two biennia after adjusting for the expiration of the temporary sales tax increase that ends in fiscal year 2015.

Sales and Use Tax – Sales and use tax receipts increased by 2.5% for the 12 months ending in September 2014. The current revenue forecast assumes continued improvement bolstered by lower energy prices and an improving labor market.

Individual Income Tax –The Individual Income Tax is forecast with the input of a number of economic variables: the components of personal income, inflation, total employment growth, the unemployment rate, and the 3-month treasury bill and 10-year treasury note rates. In addition to these economic variables, Maine Revenue Services must also input assumptions about net capital gains. For the most part the relationship and the effect of these variables on the individual income tax are obvious. Personal income and the distribution of that variable into its components (salaries and wages; dividends, interest and rent; proprietor's income; and transfer payments) affect the accuracy of the Individual Income Tax forecast. The forecast for the Individual Income Tax while consistent with the changes in these economic variables is also influenced by recent data from federal and state income tax returns. The Individual Income Tax was over budget in fiscal year 2014, mostly due to higher than anticipated tax liability for tax year 2013. In their December 2014 report, the RFC recommends an increase in revenue through fiscal year 2017.

Corporate Income Tax – The Corporate Income Tax model is driven by employment growth by sector, the CPI forecast and a national forecast of corporate pre-tax profits. The RFC increased the forecast of Corporate Income tax revenue by \$8.1 million for the 2016-2017 biennium. The new forecast reflects changes to the economic forecast for pre-tax corporate profits. Corporate profits are now estimated to grow slightly slower in calendar year 2014 but significantly stronger in calendar years 2015 and 2016. The forecast also accounts for several temporary state level tax law changes that will continue to have an impact on corporate income tax revenues in the next two biennia.

Cigarette and Tobacco Tax –The Revenue Forecasting Committee in December 2014 lowered its budgeted revenue projections by approximately \$4.9 million over the 2016-2017 biennium. The long-term trend is still expected to be a slow decline in sales each year due to declining consumption of tobacco products.

Insurance Company Tax –The Revenue Forecasting Committee in December 2012 projected an increase in Insurance Company Tax of \$2 million each year over the 2016-2017 biennium. The forecast for the insurance premiums taxes was increased as a result of the better than expected performance of these tax lines in fiscal year 2014. The forecast is flat because revenue from these taxes tends to fluctuate up and down within a fairly narrow range.

Municipal Revenue Sharing – Sales and Use Tax, Service Provider Tax, Individual Income Tax and Corporate Income Tax are subject to Municipal Revenue Sharing in accordance with Title 30-A, section 5681 of the Maine Revised Statutes. That section of statute requires that an amount equal to 5.0% of the sales, income, corporate and service provider tax lines be transferred to the Local Government Fund (Municipal Revenue Sharing). For the 2016-2017 biennium, Revenue Sharing will be consistent with the level of funding provided in fiscal year 2014-15.

Estate Tax – Estate tax estimates are forecast by Maine Revenue Services using a model based on the growth in household net worth. A new forecast of household net-worth contributed to an increase of \$2.8 million in the upcoming biennium. Final data on 2013 estate tax returns and initial information on 2014 returns will be available for the May 1st forecast providing a better indicator of post-2011 tax changes.

Transfers to Municipal Revenue Sharing – The amounts transferred for municipal revenue sharing are based on a percentage of the Individual Income Tax, Corporate Income Tax, Sales and Use Tax and the Service Provider Tax. Consequently, the estimate of these amounts is a simple calculation based on the forecast for those taxes. For the 2016-2017 biennium, Revenue Sharing will be consistent with the level of funding provided in fiscal year 2014-15.

The adopted Revenue Forecasting Committee forecasts for the General Fund, the Highway Fund and the Tobacco Settlement Fund are reflected in Tables B – 1 through B – 3.

Table B-1

GENERAL FUND REVENUE FORECAST									
SOURCE	FY14	FY15	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY16	YR. TO YR. % CHANGE	FY17	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Sales and Use Tax	1,106,158,236	1,194,004,518	7.94%	2,300,162,754	1,127,459,003	-5.57%	1,180,620,005	4.72%	2,308,079,008
Service Provider Tax	50,173,388	50,303,776	0.26%	100,477,164	51,309,851	2.00%	52,336,048	2.00%	103,645,899
Individual Income Tax	1,406,117,705	1,462,017,200	3.98%	2,868,134,905	1,541,174,128	5.41%	1,603,658,155	4.05%	3,144,832,283
Corporate Income Tax	182,928,181	190,226,769	3.99%	373,154,950	188,064,279	-1.14%	192,608,081	2.42%	380,672,360
Cigarette & Tobacco Tax	136,159,833	134,890,000	-0.93%	271,049,833	133,441,000	-1.07%	132,079,000	-1.02%	265,520,000
Insurance Company Tax	83,203,879	82,250,000	-1.15%	165,453,879	82,700,000	0.55%	82,700,000	0.00%	165,400,000
Inheritance & Estate Tax	23,961,911	38,406,991	60.28%	62,368,902	28,813,460	-24.98%	31,650,671	9.85%	60,464,131
Fines, Forfeits and Penalties	23,473,506	23,000,770	-2.01%	46,474,276	22,988,770	-0.05%	22,979,770	-0.04%	45,968,540
Income from Investments	301,144	112,451	-62.66%	413,595	243,658	116.68%	597,719	145.31%	841,377
Transfer from Lottery	51,845,477	57,350,462	10.62%	109,195,939	56,816,776	-0.93%	57,123,279	0.54%	113,940,055
Trans for Tax Relief Progs	(65,357,986)	(59,183,362)	-9.45%	(124,541,348)	(66,771,938)	12.82%	(68,948,340)	3.26%	(135,720,278)
Trans. to Muni. Rev. Share	(66,063,030)	(62,441,975)	-5.48%	(128,505,005)	(158,218,440)	153.38%	(154,913,582)	-2.09%	(313,132,022)
Other Taxes and Fees	130,140,462	132,333,097	1.68%	262,473,559	128,995,143	-2.52%	129,375,658	0.29%	258,370,801
Other Revenues	50,454,226	49,587,338	-1.72%	100,041,564	37,703,855	-23.96%	38,919,959	3.23%	76,623,814
TOTAL REVENUE	3,113,496,933	3,292,858,035	5.76%	6,406,354,967	3,174,719,545	-3.59%	3,300,786,423	3.97%	6,475,505,968

Table B-2

HIGHWAY FUND REVENUE FORECAST									
SOURCE	FY14 ACTUAL	FY15	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY16	YR. TO YR. % CHANGE	FY17	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Fuel Tax	217,494,739	217,413,634	-0.04%	434,908,373	220,811,525	1.56%	224,110,357	1.49%	444,921,882
Motor Vehicle Registrations & Fees	84,815,992	83,467,472	-1.59%	168,283,464	83,458,472	-0.01%	83,458,471	0.00%	166,916,943
Inspection Fees	3,109,288	2,982,500	-4.08%	6,091,788	2,982,500	0.00%	2,982,500	0.00%	5,965,000
Other Highway Fund Taxes and Fees	1,307,919	1,270,229	-2.88%	2,578,148	1,283,729	1.06%	1,270,229	-1.05%	2,553,958
Fines Forfeits & Penalties	976,084	1,007,998	3.27%	1,984,082	1,007,998	0.00%	1,007,998	0.00%	2,015,996
Income from Investments	80,299	105,523	31.41%	185,822	287,873	172.81%	549,141	90.76%	837,014
Other Revenues	9,292,645	9,726,971	4.67%	19,019,616	9,192,412	-5.50%	9,192,412	0.00%	18,384,824
TOTAL REVENUE	317,076,966	315,974,327	-0.35%	633,051,293	319,024,509	0.97%	322,571,108	1.11%	641,595,617

Table B-3

TOBACCO SETTLEMENT REVENUE ESTIMATES									
SOURCE	FY14 ACTUAL	FY15	YR. TO YR. % CHANGE	TOTAL BIENNIUM	FY16	YR. TO YR. % CHANGE	FY17	YR. TO YR. % CHANGE	TOTAL BIENNIUM
Base Payments	47,833,255	40,246,501	-15.86%	88,079,756	40,957,942	1.77%	40,091,251	-2.12%	81,049,193
Strategic Contribution Payments	8,559,647	8,581,965	0.26%	17,141,612	8,447,026	-1.57%	8,278,665	-1.99%	16,725,691
Racino Revenue	4,158,208	4,421,515	6.33%	8,579,723	4,473,646	1.18%	4,518,382	1.00%	8,992,028
Income from Investments	7,823	5,310	-32.12%	13,133	15,394	189.91%	25,359	64.73%	40,753
Attorney General Reimbursements and Other Income	0	0	0.00%	0	0	0.00%	-	0.00%	0
Total Tobacco Settlement Revenue	60,558,934	53,255,291	-12.06%	113,814,224	53,894,008	1.20%	52,913,657	-1.82%	106,807,665

Revenue Outlook and Forecast – Tax Expenditures

Section 1: TAX EXPENDITURES

State law requires Maine Revenue Services to provide two tax expenditure reports in January of every odd-numbered year. The first report must be included in the state budget document. 5 M.R.S.A. §1664 provides that the document specifically include

. . . the estimated loss in revenue during the last completed fiscal year and the fiscal year in progress, and the anticipated loss in revenue for each fiscal year of the ensuing biennium, caused by the tax expenditures provided in Maine statutes; the term "tax expenditures" means those State tax revenue losses attributable to provisions of Maine tax laws which allow a special exclusion, exemption or deduction or which provide a specific credit, a preferential rate of tax or a deferral of tax liability.

The second report, required by 36 M.R.S.A. § 199-B, must be submitted to the Joint Standing Committee on Taxation. This report must contain

“a summary of each tax expenditure, a description of the purpose and background of the tax expenditure and the groups likely to benefit from the tax expenditure, an estimate of the cost of the tax expenditure for the current biennium, any issues regarding tax expenditures that need to be considered by the Legislature, and any recommendation regarding the amendment, repeal or replacement of the tax expenditure.”

This report meets the first statutory requirement.

The tax expenditure budget is a concept that was developed to assure a budget review process for tax preferences similar to the review required for direct expenditure programs. The federal government and most state governments engage in a periodic review of tax expenditures. At the federal level a “normal” income tax structure is first determined using the broadest possible definition of income. Tax expenditures are reductions in income caused by a special exclusion, exemption or deduction, or reductions in tax liability which provide a tax credit, preferential tax rate or deferral of tax liability. At the state level this same “normal” tax law reference is used to calculate both sales and income tax expenditures.

Generally, tax expenditures provide tax incentives designed to encourage certain activities by taxpayers or provide relief to taxpayers in special circumstances. Many tax expenditures are the equivalent of a governmental subsidy in which the foregone tax revenue is essentially a direct budget outlay to specific groups of taxpayers. The object of this report is to identify and estimate the fiscal impact of those provisions of the state tax structure which grant benefits analogous to those provided by direct state spending programs.

In developing this report we have excluded from the above definition of tax expenditure those expenditures that are (1) established by federal mandate (e.g., the sales tax exclusion for food stamp purchases), (2) created at the state level to maintain conformity with traditional tax law when the federal

government deviates from that law because it creates credits that the state does not adopt (e.g., the subtraction modification associated with federal work opportunity credit), or (3) the result of the state taxing certain activities under a different tax system (e.g., the income of a financial institution that is an S corporation).

In estimating the revenue loss attributed to a particular tax expenditure, it is assumed that the provision of law granting special tax treatment is repealed and that no other changes in tax law, taxpayer behavior or general economic activity occur as a result of its repeal. Consequently, it should not be concluded that the repeal of any of these tax expenditures will necessarily generate the amount of revenue which they are estimated to forego.

Some tax expenditures are estimated rather accurately from available administrative information or the state's micro-simulation tax models. For a much larger number of expenditures, special data must be developed which is less complete and accurate. Estimates for fiscal year 2016 and fiscal year 2017 generally assume modest increases in business activity and inflation, based on the economic forecast provided by the Consensus Economic Forecasting Committee in November 2014.

Finally, there are some expenditures where no information exists, and our limited resources prevent any special survey or other data generation procedures. Estimates for this group are reported as a range in an attempt to place some bounds on the size of these expenditures.

Maine's individual and corporate income tax systems are based upon the federal definitions of adjusted gross income and taxable income. Therefore, certain tax expenditures are authorized by continued acceptance of the provisions of the Internal Revenue Code. Unlike sales and excise tax expenditures or state income tax expenditures related to state tax credits or modifications from Federal Adjusted Gross Income (AGI), these are not subject to a systematic, periodic review by the Legislature. In many cases, the basis for identifying, estimating and forecasting income tax expenditures which are derived from federal conformity is the Joint Committee on Taxation's (JCT) Estimates of Federal Tax Expenditures for Fiscal Years 2014-2018, compiled by the U.S. Joint Standing Committee on Taxation (August 5, 2014).

Tax expenditures resulting from conformity to Federal AGI that do not involve an above-the-line deduction on the Federal Form 1040 are particularly challenging to estimate due to a lack of data. For this reason we isolate these expenditures at the end of the income tax section and provide specific estimates only for the largest expenditures. These estimates, based on the JCT study, are only intended to convey the order of magnitude of the expenditure.

All tax expenditure estimates in this report reflect revenue loss to the General Fund.

Appendix A: General Fund Tax Expenditures – Income Tax (Personal and Corporate) and Property Tax Reimbursement

General Fund Income Tax Expenditures	36 MRSA §	FY'14	FY'15	FY'16	FY'17
Reimbursement For Business Equipment Tax Exemption to Chapter 105, Subchapter 4-c Municipalities		\$23,028,000	\$25,748,000	\$30,183,000	\$35,100,000
Reimbursement for Taxes Paid on Certain Business Property (BETR)	Chapter 915	\$38,355,000	\$30,476,000	\$33,250,000	\$30,400,000
Deduction for Affordable Housing	5122(2)(Z)	B	B	B	B
Deduction for Social Security Benefits Taxable at Federal Level	5122(2)(C)	\$69,711,000	\$71,212,000	\$74,404,000	\$76,864,000
Deduction for Contributions to Capital Construction Funds	5122(2)(I)	A	A	A	A
Deduction for Premiums Paid for Long-Term Health Care Insurance	5122(2)(L)&(T)	\$1,919,000	\$1,947,000	\$1,966,000	\$1,985,000
Deduction for Pension Income	5122(2)(M)	\$13,300,000	\$25,184,000	\$26,125,000	\$26,647,000
Deduction for Interest and Dividends on Maine State and Local Securities - Individual Income Tax	5122(2)(N)	\$42,000	\$42,000	\$42,000	\$42,000
Deduction for Holocaust Victim Settlement Payments	5122(2)(O)	A	A	A	A
Deduction For Contributions To IRC 529 Qualified Tuition Plans	5122(2)(Y)	\$237,000	\$253,000	\$270,000	\$289,000
Deduction for Dentists with Military Pensions	5122(2)(BB)	A	A	A	A
Deduction for active duty military pay earned outside of Maine	5122(2)(LL)	\$741,000	\$1,873,000	\$1,928,000	\$1,985,000
Itemized Deductions	5125	\$60,515,000	\$56,933,000	\$60,496,000	\$68,941,000
Additional standard deduction for the elderly and disabled	5124-A	\$5,329,000	\$5,500,000	\$5,681,000	\$5,871,000
Deduction for Exempt Associations, Trusts and Organizations	5162(2)	A	A	A	A
Credit for Income Tax Paid to Other State by an Estate or Trust	5165	A	A	A	A
Deduction for Interest and Dividends on U.S., Maine State and Local Securities	5200-A(2)(A)&(G)	\$190,000	\$190,000	\$190,000	\$190,000
Credit to Beneficiary for Accumulation Distribution	5214-A	A	A	A	A
Jobs and Investment Tax Credit	5215	C	C	C	C
Seed Capital Investment Tax Credit	5216-B	\$1,159,000	\$1,168,000	\$1,824,000	\$2,679,000
Credit for Contributions to Family Development Account Reserve Funds	5216-C	A	A	A	A
Credit for Employer-Assisted Day Care	5217	A	A	A	A
Credit for Income Tax Paid to Other Jurisdiction	5217-A	\$43,035,000	\$44,756,000	\$46,540,000	\$48,393,000
Credit for Employer-Provided Long-Term Care Benefits	5217-C	A	A	A	A
Credit for Educational Opportunity	5217-D	\$3,040,000	\$5,101,000	\$7,049,000	\$9,376,000
Income Tax Credit for Child Care Expense	5218	\$3,674,000	\$3,676,000	\$3,676,000	\$3,676,000
Retirement and Disability Credit	5219-A	\$1,000	\$1,000	\$1,000	\$1,000
Forest Management Planning Income Credits	5219-C	\$58,000	\$59,000	\$61,000	\$63,000
Research Expense Tax Credit	5219-K	\$430,000	\$451,000	\$475,000	\$498,000
Super Credit for Substantially Increased Research & Development	5219-L	\$2,035,000	\$1,896,000	\$1,132,000	\$1,057,000
High-Technology Investment Tax Credit	5219-M	\$393,000	\$447,000	\$460,000	\$474,000
Credit for Dependent Health Benefits Paid	5219-O	A	A	A	A
Quality Child Care Investment Credit	5219-Q	A	A	A	A
Credit for Rehabilitation of Historic Properties	5219-R & 5219-BB	\$7,681,000	\$10,925,000	\$13,062,000	\$13,172,000
Earned Income Credit	5219-S	\$1,060,000	\$950,000	\$902,000	\$855,000
Pine Tree Development Zone Tax Credit	5219-W	\$1,920,000	\$2,014,000	\$2,109,000	\$2,223,000
Biofuel Commercial Production and Commercial Use	5219-X	A	A	A	A
Tax Benefits for Media Production Companies	5219-Y, c. 919-A	\$228,000	\$237,000	\$247,000	\$256,000
Tax Credit for Pollution-Reducing Boilers	5219-Z	A	A	A	A
Dental Care Access Credit	5219-BB	\$118,000	\$129,000	\$125,000	\$106,000
New Markets Capital Investment Credit	5219-HH	\$0	\$2,715,000	\$9,205,000	\$13,509,000
Credit for Wellness Programs	5219-FF	\$75,000	\$302,000	\$310,000	\$319,000
Maine fishery infrastructure investment tax credit	5216-D	A	A	A	A
Innovation Finance Credit	5219-EE	\$0	\$0	*	*
Primary Care Access Credit	5219-LL	\$22,000	\$64,000	\$118,000	\$186,000
Property Tax Fairness Credit	5219-KK	\$18,988,000	\$32,079,000	\$30,523,000	\$29,108,000
Employment Tax Increment Financing, including certain Job Increment Financing Programs	Chapter 917	\$11,819,000	\$13,148,000	\$14,011,000	\$14,671,000
Shipbuilding Facility Credit	Chapter 919	\$2,850,000	\$2,850,000	\$2,850,000	\$2,850,000

A represents an estimated spread of \$0 - \$49,999

B represents an estimated spread of \$0 - \$200,000

C represents an estimated spread of \$0 - \$500,000

*represents a potential liability

Appendix A Continued

General Fund Income Tax Expenditures	36 MRSA §	FY'14	FY'15	FY'16	FY'17
CONFORMITY WITH INTERNAL REVENUE CODE DEFINITION OF FEDERAL ADJUSTED GROSS INCOME: ABOVE THE LINE DEDUCTIONS					
Health Savings Accounts	5102(1-D)	\$1,358,000	\$1,406,000	\$1,444,000	\$1,491,000
Deduction for Interest of Student Loans	5102(1-D)	\$3,866,000	\$3,980,000	\$4,094,000	\$4,208,000
Moving Expenses Deduction	5102(1-D)	\$570,000	\$571,000	\$589,000	\$606,000
Pension Contributions -- Individual Retirement Plans	5102(1-D)	\$5,548,000	\$5,548,000	\$5,548,000	\$5,548,000
Pension Contributions -- Partners & Sole Proprietors --Self-employed SEP, SIMPLE, and KEOGH Plans	5102(1-D)	\$5,773,000	\$5,937,000	\$6,108,000	\$6,289,000
Self-Employed Medical Insurance Premiums	5102(1-D)	\$8,246,000	\$8,531,000	\$9,063,000	\$9,614,000
CONFORMITY WITH INTERNAL REVENUE CODE DEFINITION OF FEDERAL ADJUSTED GROSS INCOME: OTHER					
Pension Contributions & Earnings -- Employer-Provided Pension Contributions and Earnings	5102(1-D)	\$80,721,000	\$117,952,000	\$149,831,000	\$182,279,000
Employer-Paid Medical Insurance and Expenses	5102(1-D)	\$162,811,000	\$171,463,000	\$177,384,000	\$186,264,000
Exclusion of Benefits Provided under Cafeteria Plans	5102(1-D)	\$39,278,000	\$41,783,000	\$43,719,000	\$46,110,000
Exclusion of Capital Gains at Death	5102(1-D)	\$23,776,000	\$25,060,000	\$26,343,000	\$27,702,000
Exclusion of Investment Income on Life Insurance and Annuity Contracts	5102(1-D)	\$31,195,000	\$31,992,000	\$32,903,000	\$33,586,000
Exclusion of Capital Gains on Sales of Principal Residences	5102(1-D)	\$27,437,000	\$31,195,000	\$35,066,000	\$37,002,000
Exclusion of Medicare Benefits -- Hospital Insurance -- Supplementary Medical Insurance -- Prescription Drug Insurance	5102(1-D)	\$59,358,000	\$62,570,000	\$69,479,000	\$72,788,000
Social Security and Railroad Retirement Benefits Untaxed at the Federal Level	5102(1-D)	\$49,613,000	\$52,134,000	\$55,053,000	\$58,501,000
Other conformity items	5102(1-D)		\$150 to 250 million per year		

Appendix B: General Fund tax expenditures – Sales, Motor Fuel and Service Provider Taxes

General Fund Sales & Use Tax Expenditures	36 MRSA §	FY'14	FY'15	FY'16	FY'17
Sales to the State & Political Subdivisions	1760.2	\$172,596,735	\$180,984,614	\$167,822,096	\$171,178,538
Grocery Staples	1760.3	\$164,500,195	\$175,204,700	\$164,901,000	\$171,152,000
Ships Stores	1760.4	C	C	C	C
Prescription Drugs	1760.5	\$66,715,538	\$71,039,100	\$66,851,500	\$69,369,000
Prosthetic Devices	1760.5A	\$6,963,025	\$7,429,950	\$7,011,000	\$7,286,500
Meals Served by Public or Private Schools	1760.6A	\$8,723,705	\$9,289,319	\$8,741,330	\$9,071,170
Meals Served to Patients in Hospitals & Nursing Homes	1760.6B	\$8,314,970	\$8,903,400	\$8,502,500	\$8,987,000
Providing Meals for the Elderly	1760.6C	\$363,300	\$384,690	\$356,212	\$366,899
Providing Meals to Residents of Certain Nonprofit Congregate Housing Facilities	1760.6D	A	A	A	A
Certain Meals Served by Colleges to Employees of the College	1760.6E	A	A	A	A
Meals Served by Youth Camps that are Licensed by DHHS	1760.6F	C	C	C	C
Meals Served by a Retirement Facility to its Residents	1760.6G	\$610,917	\$646,886	\$605,721	\$623,893
Products Used in Agricultural and Aquacultural Production & Bait	1760.7A-C	\$3,242,635	\$3,438,050	\$3,249,000	\$3,372,500
Certain Jet Fuel	1760.8B	\$5,491,759	\$5,815,106	\$5,445,054	\$5,608,406
Coal, Oil & Wood for Cooking & Heating Homes	1760.9	\$70,308,357	\$73,933,750	\$69,654,000	\$73,207,000
Fuel Oil for Burning Blueberry Land	1760.9A	A	A	A	A
First 750 KW Hours of Residential Electricity Per Month	1760.9B	\$23,122,834	\$25,129,533	\$24,173,700	\$25,784,045
Gas When Used for Cooking & Heating in Residences	1760.9C	\$13,232,289	\$14,441,900	\$14,478,000	\$15,318,750
Fuel and Electricity Used in Manufacturing	1760.9D	\$28,206,151	\$29,430,773	\$27,836,160	\$28,392,883
Fuel Oil or Coal which become an Ingredient or Component Part	1760.9G	A	A	A	A
Certain Returnable Containers	1760.12	\$1,427,979	\$1,512,056	\$1,415,834	\$1,458,310
Packaging Materials	1760.12A	\$11,943,875	\$12,843,050	\$12,264,500	\$12,720,500
Publications Sold on Short Intervals	1760.14	\$1,610,250	\$0	\$0	\$0
Free Publications and Components of Publications	1760.14-A	\$1,234,335	\$1,797,609	\$1,689,753	\$1,747,204
Sales to Hospitals, Research Centers, Churches and Schools	1760.16	F	F	F	F
Rental Charges for Living Quarters in Nursing Homes and Hospitals	1760.18	C	C	C	C
Sales to Certain Nonprofit Residential Child Care Institutions	1760.18A	B	B	B	B
Rental of Living Quarters at Schools	1760.19	\$6,573,050	\$7,078,858	\$6,412,500	\$6,650,000
Rental Charges on Continuous Residence for More Than 28 Days	1760.20	\$836,000	\$894,628	\$806,284	\$830,473
Automobiles Used in Driver Education Programs	1760.21	A	A	A	A
Certain Loaner Vehicles	1760.21A	\$253,816	\$266,151	\$246,795	\$251,730
Automobiles Sold to Amputee Veterans	1760.22	A	A	A	A
Certain Vehicles Purchased or Leased by Nonresidents	1760.23C	C	C	C	C
Certain Vehicles Purchased or Leased by Qualifying Resident Businesses	1760.23D	\$941,234	\$986,977	\$915,197	\$933,500
Funeral Services	1760.24	\$4,808,045	\$5,120,500	\$4,816,500	\$4,997,000
Watercraft Purchased by Nonresidents	1760.25	C	C	C	C
Sales to Ambulance Services & Fire Departments	1760.26	C	C	C	C
Sales to Comm. Mental Health, Substance Abuse & Mental Retardation Facilities	1760.28	B	B	B	B
Water Pollution Control Facilities	1760.29	C	C	C	C
Air Pollution Control Facilities	1760.30	C	C	C	C
Machinery & Equipment	1760.31	\$47,328,240	\$51,288,600	\$49,077,000	\$51,604,000
New Machinery for Experimental Research	1760.32	B	B	B	B
Diabetic Supplies	1760.33	\$1,185,614	\$1,255,421	\$1,175,531	\$1,210,797
Sales Through Coin Operated Vending Machines	1760.34	\$312,609	\$327,801	\$303,961	\$310,040
Goods & Services for Seeing Eye Dogs	1760.35	A	A	A	A
Sales to Regional Planning Agencies	1760.37	A	A	A	A
Water Used in Private Residences	1760.39	\$20,919,570	\$22,279,400	\$20,966,500	\$21,755,000
Mobile & Modular Homes	1760.40	\$27,593,065	\$28,650,370	\$26,436,477	\$26,833,025
Certain instrumentalities of interstate or foreign commerce	1760.41	D	D	D	D
Sales to Historical Societies & Museums	1760.42	B	B	B	B
Sales to Day Care Centers & Nursery Schools	1760.43	B	B	B	B
Sales to Church Affiliated Residential Homes	1760.44	A	A	A	A
Certain Property Purchased Out of State	1760.45	D	D	D	D
Sales to Organ. that Provide Residential Facilities for Med. Patients	1760.46	A	A	A	A
Sales to Emergency Shelters & Feeding Organizations	1760.47A	B	B	B	B
Sales to Comm. Action Agencies; Child Abuse Councils; Child Advocacy Orgs.	1760.49	C	C	C	C

A represents an estimated spread of \$0 - \$49,999

B represents an estimated spread of \$50,000 - \$249,999

C represents an estimated spread of \$250,000 - \$999,999

D represents an estimated spread of \$1,000,000 – \$2,999,999

E represents an estimated spread of \$3,000,000 - \$5,999,999

F represents an estimated spread of \$6,000,000 or more

Appendix B continued	36 MRSA §	FY'14	FY'15	FY'16	FY'17
Sales to any Nonprofit Free Libraries	1760.50	B	B	B	B
Sales to Veterans Memorial Cemetery Associations	1760.51	A	A	A	A
Railroad Track Materials	1760.52	\$386,270	\$405,042	\$375,584	\$383,096
Sales to Nonprofit Rescue Operations	1760.53	A	A	A	A
Sales to Hospice Organizations	1760.55	A	A	A	A
Sales to Nonprofit Youth & Scouting Organizations	1760.56	C	C	C	C
Self-Help Literature on Alcoholism	1760.57	A	A	A	A
Portable Classrooms	1760.58	A	A	A	A
Sales to Certain Incorporated. Nonprofit Educational Orgs.	1760.59	A	A	A	A
Sales to Incorporated Nonprofit Animal Shelters	1760.60	A	A	A	A
Construction Contracts with Exempt Organizations	1760.61	D	D	D	D
Sales to Certain Charitable Suppliers of Medical Equipment	1760.62	A	A	A	A
Sales to Orgs that Fulfill the Wishes of Children with Life-Threatening Diseases	1760.63	A	A	A	A
Sales by Schools & School-Sponsored Organizations	1760.64	C	C	C	C
Sales to Monasteries and Convents	1760.65	A	A	A	A
Sales to Providers of Certain Support Systems for Single-Parent Families	1760.66	A	A	A	A
Sales to Nonprofit Home Construction Organizations	1760.67	B	B	B	B
Sales to Orgs that Create & Maintain a Registry of Vietnam Veterans	1760.69	A	A	A	A
Sales to Orgs that Provide Certain Services for Hearing-Impaired Persons	1760.70	A	A	A	A
Sales to State-Chartered Credit Unions	1760.71	A	A	A	A
Sales to Nonprofit Housing Development Organizations	1760.72	B	B	B	B
Seedlings for Commercial Forestry Use	1760.73	B	B	B	B
Property Used in Manufacturing Production	1760.74	\$167,143,095	\$179,740,000	\$171,703,000	\$178,115,500
Meals & Lodging Provided to Employees	1760.75	\$160,930	\$168,286	\$150,100	\$151,050
Certain Aircraft Parts	1760.76	A	A	A	A
Sales to Eye Banks	1760.77	A	A	A	A
Sales of Certain Farm Animal Bedding & Hay	1760.78	A	A	A	A
Electricity Used for Net Billing	1760.80	A	A	A	A
Animal Waste Storage Facility	1760.81	A	A	A	A
Sales of Property Delivered Outside this State	1760.82	F	F	F	F
Sales of Certain Printed Materials	1760.83	C	C	C	C
Sales to Centers for Innovation	1760.84	A	A	A	A
Certain Sales by an Auxiliary Organization of the American Legion	1760.85	B	B	B	B
Pine Tree Development Zone Businesses; Reimbursement of Certain Taxes	2016	C	C	C	C
Sales of Tangible Personal Property to Qualified Development Zone Businesses	1760.87	C	C	C	C
Sales of Certain Aircraft	1760.88	\$406,600	\$430,540	\$403,142	\$415,236
Sale, Use or Lease of Aircraft and Sales of Repair and Replacement Parts	1760.88-A	\$635,313	\$672,719	\$629,910	\$648,806
Sales of Certain Qualified Snowmobile Trail Grooming Equipment	1760.90	\$84,392	\$89,361	\$83,674	\$86,184
Certain Sales of Electrical Energy	1760.91	C	C	C	C
Certain Vehicle Rentals	1760.92	A	A	A	A
Plastic Bags Sold to Redemption Centers	1760.93	\$30,526	\$32,794	\$31,154	\$32,557
Positive Airway Pressure Equipment and Supplies	1760.94	\$274,062	\$291,888	\$274,905	\$284,802
Sales of Certain Adaptive Equipment	1760.95	\$0	\$65,271	\$61,889	\$64,550
Trade-In Credits	1765	\$26,345,793	\$28,032,417	\$26,375,956	\$27,299,115
Returned Merchandise Donated to Charity	1863	B	B	B	B
Merchandise Donated from a Retailer's Inventory to Exempt Organizations	1864	B	B	B	B
Refund of Sales Tax on Goods Removed from the State	2012	A	A	A	A
Refund of Sales Tax on Certain Depreciable Machinery and Equipment	2013	\$2,734,385	\$2,894,650	\$2,755,000	\$2,888,000
Fish Passage Facilities	2014	A	A	A	A
Refund of Sales Tax on Purchases of Parts and Supplies for Windjammers	2020	\$81,320	\$87,780	\$82,650	\$85,500
Consumer Purchases of Amusement and Recreational Services	1752.11	\$52,875,750	\$59,344,714	\$55,848,600	\$57,960,830
Business Purchases of Amusement and Recreational Services	1752.11	\$10,709,132	\$11,486,013	\$10,924,525	\$11,452,725
Consumer Purchases of Medical Services	1752.11	\$503,022,445	\$536,720,151	\$505,059,045	\$524,116,330
Business Purchases of Medical Services	1752.11	\$10,749,183	\$11,506,286	\$10,972,405	\$11,570,525
Consumer Purchases of Education Services	1752.11	\$68,593,725	\$73,041,320	\$68,732,690	\$71,326,000
Business Purchases of Educational Services	1752.11	\$5,523,559	\$5,872,482	\$5,561,490	\$5,804,880
Consumer Purchases of Social Services	1752.11	\$65,312,158	\$69,546,840	\$65,444,360	\$67,913,790
Business Purchases of Social Services	1752.11	\$6,312,651	\$6,758,015	\$6,416,965	\$6,707,095
Consumer Purchases of Financial Services	1752.11	\$211,408,621	\$225,116,095	\$211,836,795	\$219,829,810
Business Purchases of Financial Services	1752.11	\$383,131,353	\$408,922,294	\$387,178,105	\$403,740,975
Consumer Purchases of Personal, Household and Business Services	1752.11	\$68,590,472	\$73,039,439	\$68,732,310	\$71,327,235

A represents an estimated spread of \$0 - \$49,999

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D represents an estimated spread of \$1,000,000 - \$2,999,999

E represents an estimated spread of \$3,000,000 - \$5,999,999

F represents an estimated spread of \$6,000,000 or more

Appendix B continued	36 MRSA §	FY'14	FY'15	FY'16	FY'17
Consumer Purchases of Information Services Except Telecommunications	1752.11	\$2,603,358	\$2,772,176	\$2,608,605	\$2,707,025
Business Purchases of Information Services Except Telecommunications	1752.11	\$27,520,213	\$29,462,835	\$27,992,890	\$29,354,430
Consumer Purchases of Transportation Services	1752.11	\$24,489,925	\$26,164,815	\$24,690,785	\$25,699,970
Business Purchases of Transportation Services	1752.11	\$65,258,487	\$69,926,698	\$66,434,165	\$69,494,685
Business Purchases of Legal, Business, Administrative and Support Services	1752.11	\$496,804,515	\$532,753,436	\$506,938,810	\$530,339,780
Business Purchases of Construction Services	1752.11	\$206,136,700	\$214,465,350	\$203,423,500	\$212,619,500
Business Purchases of Repair, Maintenance and Personal Services	1752.11	\$20,682,116	\$22,087,747	\$20,877,295	\$21,741,320
Casual Sales	1752.11	D	D	D	D
Sales by Executors	1752.11	A	A	A	A
General Fund Service Provider Tax Expenditures					
Basic Cable & Satellite Television Service	2551.2	\$2,023,500	\$2,099,500	\$2,185,000	\$2,280,000
Certain Telecommunications Services	2557.33,34	\$12,793,446	\$13,272,735	\$13,809,053	\$14,465,398
Sales to the State & Political Subdivisions	2557.2	D	D	D	D
Sales to Hospitals, Research Centers, Churches and Schools	2557.3	C	C	C	C
Sales to Certain Nonprofit Residential Child Care Institutions	2557.4	A	A	A	A
Sales to Ambulance Services & Fire Departments	2557.5	A	A	A	A
Sales to Comm. Mental Health, Substance Abuse & Mental Retardation Facilities	2557.6	A	A	A	A
Sales to Regional Planning Agencies	2557.7	A	A	A	A
Sales to Historical Societies & Museums	2557.8	A	A	A	A
Sales to Day Care Centers & Nursery Schools	2557.9	A	A	A	A
Sales to Church Affiliated Residential Homes	2557.10	A	A	A	A
Sales to Organ. that Provide Residential Facilities for Med. Patients	2557.11	A	A	A	A
Sales to Emergency Shelters & Feeding Organizations	2557.12	A	A	A	A
Sales to Comm. Action Agencies; Child Abuse Councils; Child Advocacy Orgs.	2557.13	B	B	B	B
Sales to any Nonprofit Free Libraries	2557.14	A	A	A	A
Sales to Veterans Memorial Cemetery Associations	2557.15	A	A	A	A
Sales to Nonprofit Rescue Operations	2557.16	A	A	A	A
Sales to Hospice Organizations	2557.17	A	A	A	A
Sales to Nonprofit Youth & Scouting Organizations	2557.18	B	B	B	B
Sales to Certain Incorporated, Nonprofit Educational Orgs.	2557.19	A	A	A	A
Sales to Certain Charitable Suppliers of Medical Equipment	2557.20	A	A	A	A
Sales to Orgs that Fulfill the Wishes of Children with Life-Threatening Diseases	2557.21	A	A	A	A
Sales to Providers of Certain Support Systems for Single-Parent Families	2557.22	A	A	A	A
Sales to Nonprofit Home Construction Organizations	2557.23	A	A	A	A
Sales to Orgs that Create & Maintain a Registry of Vietnam Veterans	2557.24	A	A	A	A
Sales to Orgs that Provide Certain Services for Hearing-Impaired Persons	2557.25	A	A	A	A
Sales to State-Chartered Credit Unions	2557.26	A	A	A	A
Sales to Nonprofit Housing Development Organizations	2557.27	A	A	A	A
Sales to Eye Banks	2557.28	A	A	A	A
Sales to Centers for Innovation	2557.29	A	A	A	A
Construction contracts with exempt organizations	2557.31	C	C	C	C
Highway Fund Sales & Use Tax Expenditures					
Motor Vehicle Fuel	1760.8A	\$143,231,504	\$142,461,604	\$129,164,121	\$128,817,694
Highway Fund Gasoline & Special Fuel Tax Expenditures					
State and Local Government Exemption from the Gasoline Tax	2903	\$2,079,225	\$2,129,597	\$2,181,538	\$2,235,102
Refund of the Gasoline Tax for Off-Highway Use and for Certain Bus Cos.	2908	\$265,192	\$325,000	\$325,000	\$325,000
State & Local Government Exemption from the Special Fuel Tax	3204-A	\$2,732,812	\$2,760,140	\$2,787,741	\$2,815,618
Refund of the Special Fuel Tax for Off-Highway Use and for Certain Bus Cos.	3218	\$4,513,071	\$4,500,000	\$4,500,000	\$4,500,000
Multimodal Transportation Fund Aeronautical Fuel Tax Expenditures					
Excise Tax Exemption on Jet or Turbo Jet Fuel - International Flights	2903	\$142,530	\$143,955	\$145,395	\$146,849
Refund of Excise Tax on Fuel Used in Piston Aircraft	2910	\$30,411	\$30,716	\$31,023	\$31,333

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E represents an estimated spread of \$3,000,000 - \$5,999,999

F represents an estimated spread of \$6,000,000 or more

Tax Expenditures

Appendix B continued	36 MRSA §	FY'14	FY'15	FY'16	FY'17
H.O.M.E. Fund Excise Tax Expenditure					
Exemptions of the Real Estate Transfer Tax	4641C	C	C	C	C
General Fund Cigarette Tax & Real Estate Transfer Tax Expenditures					
Cigarette Stamp Tax Deduction for Licensed Distributors	4366A.2	\$1,434,656	\$1,419,407	\$1,393,854	\$1,368,761
Exemptions of the Real Estate Transfer Tax	4641C	C	C	C	C

A represents an estimated spread of \$0 - \$49,999
 B represents an estimated spread of \$50,000 - \$249,999
 C represents an estimated spread of \$250,000 - \$999,999
 D represents an estimated spread of \$1,000,000 - \$2,999,999
 E represents an estimated spread of \$3,000,000 - \$5,999,999
 F represents an estimated spread of \$6,000,000 or more

Budget Forecast

5 M.R.S.A. §1665, requires the State Budget Officer to prepare a four year revenue and expenditure forecast for the General Fund and the Highway Fund. In accordance with 5 M.R.S.A. §1665, subsection 7, the forecast assumes the continuation of current laws and includes reasonable and predictable estimates of growth in revenues and expenditures based on national and local trends and program operations. On September 30, 2014, the Bureau of the Budget issued its updated four year budget forecast for fiscal years 2014-15 through 2016-17.

In order to provide the most accurate expenditure estimate, legislatively approved appropriations and allocations through the end of the Second Regular Session of the 126th Legislature were used as the starting point for the forecast. The authorized budget for fiscal year 2014-15, recalculated to reflect authorized positions and projected rates for personnel services, and adjusted by program for one-time expenditures and the phase-in of new operations, was used to determine the baseline expenditure forecast for fiscal years 2014-15 through 2016-17. This was further adjusted to reflect program-by-program expenditure growth or decline that varied from the baseline growth assumptions, resulting from programmatic factors such as caseload, national trends, etc.

As reflected in **Table C – 1** , the adjusted fund balance for the General Fund was \$12,518,554 at the end of fiscal year 2013-14, and was projected to be (\$11,226,465) at the end of fiscal year 2014-15. The Revenue Forecasting Committee (RFC) in its December 2013 report re-projected revenues upward by \$8.8 million for the 2016-2017 biennium. Then in May 2013 the RFC increased its revenue projections by \$12.1 million and in the December 2014, increased its revenue projections by an additional \$67.5 million, resulting in a net overall revenue increase of \$88.4 million for the 2016-2017 biennium. Projected General Fund appropriations for the 2016-2017 biennium were \$6,870,300,442, resulting in a structural budget gap of \$461,050,457.

As reflected in **Table C – 2** , the adjusted fund balance for the Highway Fund was \$177,729 at the end of fiscal year 2013-14, and was projected to be (\$48,400) at the end of fiscal year 2014-15. The Revenue Forecasting Committee (RFC) in its December 2013 report re-projected revenues upward by \$1.9 million for the 2016-2017 biennium. The RFC in May 2013 increased its revenue projections by \$3.6 million and the RFC in the December 2014 report further increased its revenue projections by \$25.5 million, resulting in a net overall revenue increase of \$31 million for the 2016-2017 biennium. Projected Highway Fund allocations for the 2016-2017 biennium were \$964,229,247 resulting in a projected structural budget gap of \$358,457,497.

TABLE C-1

Four Year Forecast						
GENERAL FUND STATUS						
At the Beginning of the 2016-2017 Biennial Budget Process						
	FY 14-15 BIENNIUM			FY 16-17 BIENNIUM		
	FY 14	FY 15	TOTAL	FY 16	FY 17	TOTAL
BALANCE	7,680,399		7,680,399	1,292,089		1,292,089
ADJUSTMENTS	132,082,666	50,124,651	182,207,317			-
REVENUE	3,074,367,119	3,247,324,775	6,321,691,894	3,146,346,603	3,261,611,293	6,407,957,896
TOTAL SOURCES	3,214,130,184	3,297,449,426	6,511,579,610	3,147,638,692	3,261,611,293	6,409,249,985
ADJUSTMENTS	1,800,000	124,500,000	126,300,000			-
APPROPRIATIONS	3,199,811,630	3,184,175,891	6,383,987,521	3,418,464,662	3,451,835,780	6,870,300,442
TOTAL USES	3,201,611,630	3,308,675,891	6,510,287,521	3,418,464,662	3,451,835,780	6,870,300,442
PROJECTED BALANCE (SHORTFALL)	12,518,554	(11,226,465)	1,292,089	(270,825,970)	(190,224,487)	(461,050,457)

Source: Revenue and Expenditure Projection General Fund and Highway Fund Fiscal Years 2014-2017

TABLE C-2

Four Year Forecast						
HIGHWAY FUND STATUS						
At the Beginning of the 2016-2017 Biennial Budget Process						
	FY 14-15 BIENNIUM			FY 16-17 BIENNIUM		
	FY 14	FY 15	TOTAL	FY 16	FY 17	TOTAL
BALANCE	6,742,320		6,742,320	129,329		129,329
ADJUSTMENTS		806,550	806,550			-
REVENUE	310,267,211	308,576,740	618,843,951	308,222,674	307,829,602	616,052,276
TOTAL RESOURCES	317,009,531	309,383,290	626,392,821	308,352,003	307,829,602	616,181,605
ADJUSTMENTS	5,210,691	5,334,017	10,544,708	5,303,800	5,106,055	10,409,855
ALLOCATIONS	311,621,111	304,097,673	615,718,784	475,805,983	488,423,264	964,229,247
PROJECTED BALANCE (SHORTFALL)	177,729	(48,400)	129,329	(172,757,780)	(185,699,717)	(358,457,497)

Source: Revenue and Expenditure Projection General Fund and Highway Fund Fiscal Years 2014-2017

Budget Process Timeline

The Constitution of Maine requires the Governor and the Legislature to submit, enact and approve a balanced budget that achieves each fiscal year a balance between resources and commitments. The State of Maine develops General Fund and Highway Fund revenue forecasts for the biennial budget within the context of a consensus revenue forecasting model. The Consensus Economic Forecasting Commission first meets to prepare a four year economic forecast for the State of Maine. The six- member Revenue Forecasting Committee (RFC) uses the economic assumptions recommended by the Consensus Economic Forecasting Commission (CEFC) to prepare its four year revenue forecast for the General Fund and the Highway Fund. The committee's recommendations for revenues affecting the upcoming biennium are made in November, and are subsequently used by the Governor in developing the General Fund and Highway Fund budget recommendations for the upcoming biennium.

The State of Maine uses a biennial budget process in which the budget is presented by the Governor and acted upon by the Legislature for two fiscal year periods beginning in even numbered years. Each fiscal year of the biennium encompasses the period of July 1 through June 30. Appropriations and allocations are provided for each fiscal year of the biennium. The biennial budget for each ensuing biennium is presented and acted upon by the first regular session of the Legislature. During the first regular session, the Legislature may also make adjustments to the appropriations and allocations by program for the last fiscal year of the current biennium. The second regular session of the Legislature may make adjustments to both the first and second fiscal years of the current biennium.

Appropriations and allocations by program are further delineated by three line categories: Personal Services, All Other, and, Capital Expenditures. The Personal Services line category includes the salaries, wages and benefits for all positions authorized by the Legislature reduced by an attrition factor of 1.6%. The All Other line category includes the operational expenditures of a program such as vehicle operations, in state travel, supplies, etc. The Capital Expenditures line category includes funds for the purchase and replacement of equipment assets valued at \$5,000 or more with a useful life greater than one year, and for real property purchases and facility improvements and construction.

Each appropriation and allocation to a program also includes the number of positions authorized by the Legislature. Referred to as "headcount", these positions are further classified by the Legislature as "legislative count" or "full-time equivalent". Legislative count represents positions authorized by the Legislature for 52 weeks in a fiscal year. These may include full-time and part-time positions. Full-time equivalent represents positions authorized by the Legislature for less than 52 weeks in a fiscal year. These typically include seasonal and intermittent positions. Positions authorized by the Legislature may not vary from the position titles and detailed funding that support the positions without legislative approval unless permanent funding is identified and approved by the State Budget Officer.

Once the Legislature has enacted the biennial budget, and it has been signed into law, the departments and agencies receiving expenditure authorization are required to develop budgets by program for each fiscal year, requesting allotment by account, line category and quarter. Allotment is established in four quarters and is approved by the Governor. Fiscal year budgets may be adjusted, or funds transferred between line categories and programs within the same fund and department or agency, to meet changing conditions upon approval by the Governor. Limitations on the transferability of funds between line categories and programs in a fiscal year are guided in law.

Basis of Budgeting

Governmental Funds

Expenditures for Governmental Funds are budgeted on an encumbrance and cash basis. Tax revenues, including Sales and Use Tax, Service Provider Tax, Individual Income Tax, Corporate Income Tax, Cigarette and Tobacco Tax, Estate Tax, Real Estate Transfer Tax and Fuel Taxes, are budgeted on a modified accrual basis. These tax revenues are recognized as available for appropriation or allocation in the fiscal year earned, providing they are measurable and available to liquidate liabilities in the current fiscal year period. These tax revenues that are due in the current fiscal year, but which are payable by the taxpayer subsequent to the close of the fiscal year, are accrued as accounts receivable and, therefore, recognized as revenue in the fiscal year benefited. Other revenues are recognized on a cash basis or are accrued as accounts receivable depending upon the circumstance and past practice.

Account Groups

Expenditures for Internal Service Funds and Enterprise Funds are budgeted on an encumbrance and cash basis. All revenues are recognized on an accrual basis. All revenues are recognized as available for allocation in the fiscal year earned. All revenues due in the current fiscal year, but which are payable subsequent to the close of the fiscal year, are accrued as accounts receivable and, therefore, recognized as revenue in the fiscal year benefited.

Biennial Budget Timeline

Biennial budget guidance is provided to departments and agencies in July of the last fiscal year of the current biennium. This guidance includes a description of the required documentation to support each budget request. Alternative funding scenarios from departments and agencies may also be requested to show the program impact if funds by program were limited to 90%, for example, of the base year appropriations or allocations. In addition, the guidelines and instructions may request other detailed budget information from each department and agency as necessary.

Pursuant to 5 M.R.S.A §1665, biennial budget requests are due in the Bureau of the Budget by September 1 of each even numbered year. During the months of September and October, the budget analysts in the Bureau of the Budget prepare budget recommendations for the Governor-elect based on independent analysis and forecasts as well as one-on-one discussions

with department and agency staff. Following the election, one-on-one budget meetings are held with key department and agency staff to discuss specific requests, departmental priorities, and impact of reductions from alternative budget scenarios. These meetings may include the Governor-elect, the Commissioner of the Department of Administrative and Financial Services, the State Budget Officer, the Governor-elect's Chief of Staff and the Governor-elect's Senior Policy Advisors, depending upon the department or agency and the issue under consideration.

In late December, all budget decisions are finalized, including the development of the capital budget. 5 M.R.S.A, §1666 requires that the budget bills are transmitted to the Legislature in January or February, dependent on the status of the Governor. Two budget bills are provided to the Legislature. One is a supplemental budget bill (also referred to as an emergency budget bill) that proposes adjustments to appropriations and allocations for the last fiscal year of the current biennium. The second is referred to as a unified budget bill in that it presents all appropriations and allocations for a program regardless of funding source. Part A of the bill presents the Governor's appropriation and allocation recommendations for the upcoming biennium. Part B of the bill presents adjustments associated with approved reclassifications and range changes that are self-funded by departments and agencies. Other parts of the unified budget bill include proposed statutory and unallocated language required to give legal effect to the Governor's budget proposals.

The budget document must be submitted to the Legislature in early January according to statute, except when there is a Governor-elect. A Governor-elect has one additional month and must submit the budget in early February.

The content of the budget document is prescribed by statute. The budget document presents the budget, financial and operational plan of the Governor for the upcoming biennium. Details are provided in the budget document to show how those plans will be realized and the manner in which the budget has been balanced.

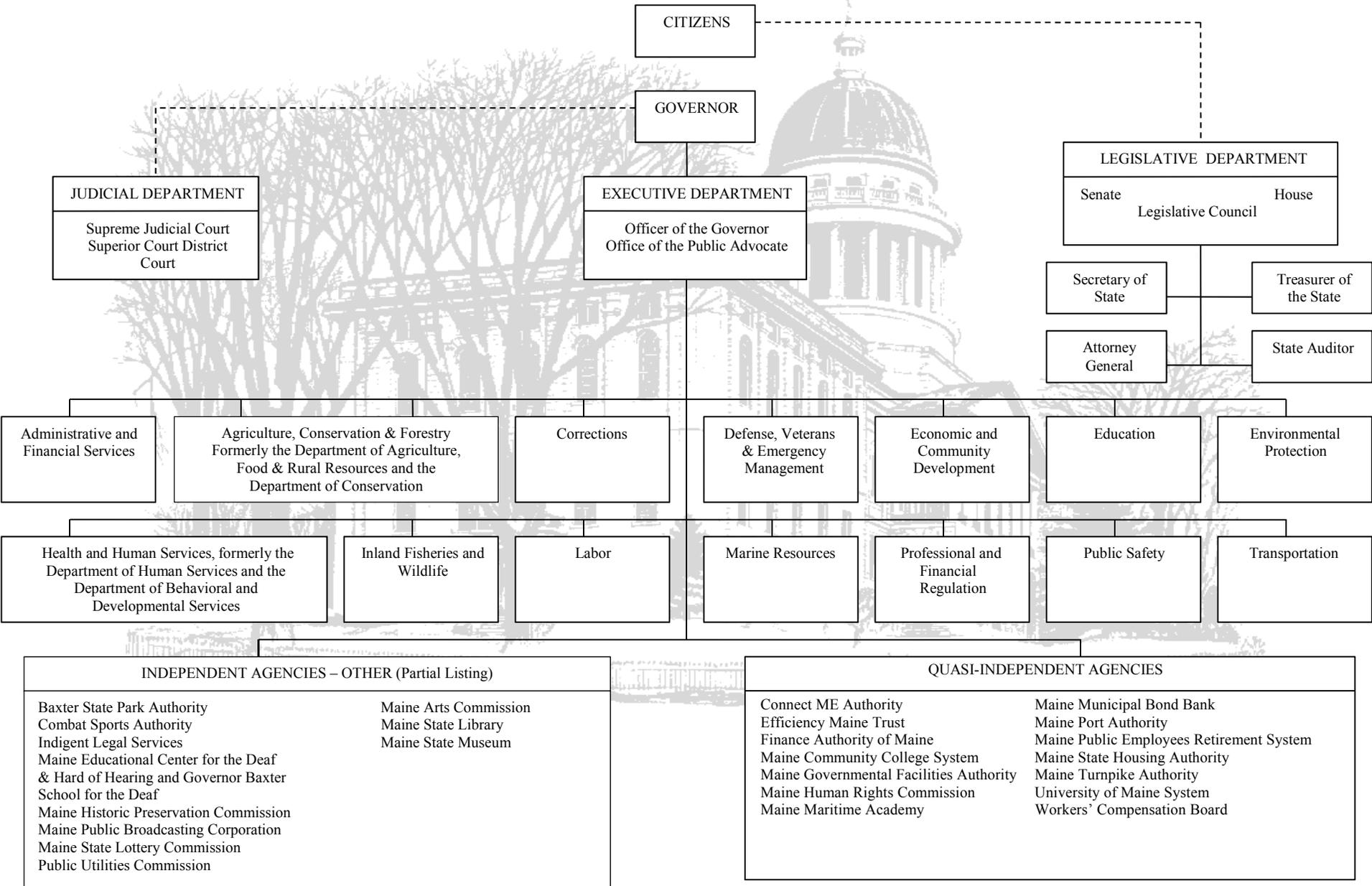
The Legislature conducts separate public hearings for each budget bill type before the Joint Standing Committee of the Legislature having jurisdiction over appropriations and financial affairs. At each public hearing, department and agency heads present and defend each budget request by program for his or her department or agency. Testimony from the public, either for or against the request, is solicited by the committee during the public hearing. Members of the joint standing committee of the Legislature having policy jurisdiction over the department or agency are also included in the public hearing process.

Following each public hearing, the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs engages in work sessions for each budget bill type. The initial stage of the work session involves the receipt of recommendations from the legislative policy committees of jurisdiction. The committee next engages each department or agency head, and their staff, in one-on-one discussions in order to elicit additional program information pertinent to the budget decision making process. Such information may include staffing and organization, performance measures, caseload forecasts, etc. The committee takes public votes on each item in the Governor's budget, adjusting each

budget bill to reflect the priorities of the Legislature. At the conclusion of the work session, the committee reports out each budget bill type for consideration by the full Legislature followed by referral to the Governor for his or her approval.

Budget bills are submitted as emergency bills that require a 2/3 vote of the members of both legislative bodies in order to take effect when approved by the Governor. Non-emergency budget bills require a majority vote of those legislators present and voting in each legislative body. These budget bills take effect 90 days after the adjournment of the Legislature if signed into law by the Governor.

ORGANIZATIONAL CHART OF MAINE STATE GOVERNMENT



CITIZENS

GOVERNOR

JUDICIAL DEPARTMENT
Supreme Judicial Court
Superior Court District
Court

EXECUTIVE DEPARTMENT
Officer of the Governor
Office of the Public Advocate

LEGISLATIVE DEPARTMENT
Senate
House
Legislative Council

Secretary of
State

Treasurer of
the State

Attorney
General

State Auditor

Administrative and
Financial Services

Agriculture, Conservation & Forestry
Formerly the Department of Agriculture,
Food & Rural Resources and the
Department of Conservation

Corrections

Defense, Veterans
& Emergency
Management

Economic and
Community
Development

Education

Environmental
Protection

Health and Human Services, formerly the
Department of Human Services and the
Department of Behavioral and
Developmental Services

Inland Fisheries and
Wildlife

Labor

Marine Resources

Professional and
Financial
Regulation

Public Safety

Transportation

INDEPENDENT AGENCIES – OTHER (Partial Listing)

Baxter State Park Authority	Maine Arts Commission
Combat Sports Authority	Maine State Library
Indigent Legal Services	Maine State Museum
Maine Educational Center for the Deaf & Hard of Hearing and Governor Baxter School for the Deaf	
Maine Historic Preservation Commission	
Maine Public Broadcasting Corporation	
Maine State Lottery Commission	
Public Utilities Commission	

QUASI-INDEPENDENT AGENCIES

Connect ME Authority	Maine Municipal Bond Bank
Efficiency Maine Trust	Maine Port Authority
Finance Authority of Maine	Maine Public Employees Retirement System
Maine Community College System	Maine State Housing Authority
Maine Governmental Facilities Authority	Maine Turnpike Authority
Maine Human Rights Commission	University of Maine System
Maine Maritime Academy	Workers' Compensation Board

Summary of Governor's General Fund Budget Recommendations

The following tables and charts show in summary form the Governor's General Fund budget recommendations for the 2016-2017 biennium. **Table D - 1** shows total General Fund appropriations by department or agency (including one-time appropriations) with percent change for the 2016-2017 biennium compared to the 2014-2015 biennium.

The amount reflected for the Department of Administrative and Financial Services in the 2014-2015 biennium includes a reduction from projected savings associated with various initiatives that will have a statewide impact. The savings will be distributed to the appropriate accounts by financial order during the fiscal year.

Table D - 2 shows the General Fund revenues recommended by the Governor for fiscal year 2015-16 and fiscal year 2016-17. The columns labeled ORIG. represent the General Fund revenue forecast of the Revenue Forecasting Committee. The columns labeled ADJ reflect the Governor's recommended adjustments to the base revenues. **Table D - 3** explains the individual adjustments to the original General Fund revenue amounts.

Chart D - 1 shows the Governor's recommended General Fund appropriations by major program for the 2016-2017 biennium.

Chart D - 2 shows the Governor's recommended General Fund revenues by revenue source for the 2016-2017 biennium. These revenues include the base revenue projections of the Revenue Forecasting Committee, including Transfers for Tax Relief Programs, and adjustments to the base revenues recommended by the Governor.

TABLE D-1

GENERAL FUND APPROPRIATIONS			
DEPARTMENT/AGENCY	GOVERNOR'S BUDGET		
	2014-2015 Biennium	2016-2017 Biennium	PERCENT CHANGE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES	248,819,423	258,820,128	4.02%
DEPARTMENT OF AGRICULTURE, CONSERVATION AND FORESTRY	57,935,634	63,479,470	9.57%
MAINE ARTS COMMISSION	1,544,901	1,939,677	25.55%
DEPARTMENT OF THE ATTORNEY GENERAL	30,245,564	41,328,441	36.64%
OFFICE OF THE STATE AUDITOR	2,559,546	3,206,266	25.27%
DEPARTMENT OF HEALTH AND HUMAN SERVICES - FORMERLY BDS	662,084,398	744,260,242	12.41%
MAINE CHARTER SCHOOL COMMISSION	297,181	296,812	-0.12%
STATE BOARD OF CORRECTIONS	25,604,379	24,404,208	-4.69%
DEPARTMENT OF CORRECTIONS	302,540,696	331,914,396	9.71%
MAINE STATE CULTURAL AFFAIRS COUNCIL	62,718	78,890	25.79%
DEPARTMENT OF DEFENSE, VETERANS AND EMERGENCY MANAGEMENT	13,314,675	15,309,259	14.98%
MAINE DEVELOPMENT FOUNDATION	141,888	116,888	-17.62%
DIRIGO HEALTH	377,000	2,650,114	602.95%
DISABILITY RIGHTS CENTER	252,090	252,090	0.00%
DOWNEAST INSTITUTE FOR APPLIED MARINE RESEARCH AND EDUCATION	25,108	25,108	0.00%
DEPARTMENT OF ECONOMIC AND COMMUNITY DEVELOPMENT	22,268,571	24,688,595	10.87%
STATE BOARD OF EDUCATION	314,340	328,204	4.41%
DEPARTMENT OF EDUCATION	2,333,069,073	2,317,174,043	-0.68%
DEPARTMENT OF ENVIRONMENTAL PROTECTION	13,401,741	15,315,454	14.28%
COMMISSION ON GOVERNMENTAL ETHICS AND ELECTION PRACTICES	289,694	301,615	4.12%
EXECUTIVE DEPARTMENT	7,753,262	10,812,626	39.46%
FINANCE AUTHORITY OF MAINE	21,362,788	31,384,788	46.91%
MAINE FIRE PROTECTION SERVICES COMMISSION	990	4,000	304.04%
FOUNDATION FOR BLOOD RESEARCH	104,350	104,350	0.00%
MAINE HISTORIC PRESERVATION COMMISSION	566,782	618,665	9.15%
MAINE HISTORICAL SOCIETY	89,728	89,728	0.00%
MAINE HOSPICE COUNCIL	127,012	127,012	0.00%
MAINE STATE HOUSING AUTHORITY	729,282	729,282	0.00%
MAINE HUMAN RIGHTS COMMISSION	999,120	1,257,350	25.85%
DEPARTMENT OF HEALTH AND HUMAN SERVICES	1,583,933,683	1,542,762,937	-2.60%
MAINE HUMANITIES COUNCIL	106,714	106,714	0.00%
MAINE COMMISSION ON INDIGENT LEGAL SERVICES	27,976,399	29,425,060	5.18%
MAINE INDIAN TRIBAL-STATE COMMISSION	200,728	223,228	11.21%
DEPARTMENT OF INLAND FISHERIES AND WILDLIFE	47,320,053	51,692,571	9.24%
CENTERS FOR INNOVATION	234,764	236,018	0.53%
JUDICIAL DEPARTMENT	126,211,987	140,577,050	11.38%
DEPARTMENT OF LABOR	18,831,376	22,878,257	21.49%
LAW AND LEGISLATIVE REFERENCE LIBRARY	2,904,640	2,949,209	1.53%
LEGISLATURE	49,969,744	50,849,961	1.76%
MAINE STATE LIBRARY	6,221,295	6,921,763	11.26%
DEPARTMENT OF MARINE RESOURCES	18,542,616	20,485,942	10.48%
MAINE MARITIME ACADEMY	16,966,608	17,773,608	4.76%
MAINE MUNICIPAL BOND BANK	138,662	138,662	0.00%
MAINE STATE MUSEUM	3,008,799	3,381,440	12.39%
PINE TREE LEGAL ASSISTANCE	709,604	1,000,000	40.92%
MAINE POTATO BOARD	318,780	321,804	0.95%
OFFICE OF PROGRAM EVALUATION AND GOVERNMENT ACCOUNTABILITY	1,774,282	1,947,980	9.79%
STATE BOARD OF PROPERTY TAX REVIEW	173,328	161,130	-7.04%
MAINE PUBLIC BROADCASTING CORPORATION	3,190,905	3,000,000	-5.98%
DEPARTMENT OF PUBLIC SAFETY	77,742,055	88,430,218	13.75%
PUBLIC UTILITIES COMMISSION	1,140,000	-	-100.00%
MAINE PUBLIC EMPLOYEES RETIREMENT SYSTEM	1,268,328	457,312	-63.94%
SACO RIVER CORRIDOR COMMISSION	93,920	93,920	0.00%
DEPARTMENT OF THE SECRETARY OF STATE	7,855,138	9,528,199	21.30%
ST. CROIX INTERNATIONAL WATERWAY COMMISSION	43,716	48,000	9.80%
RESERVE FUND FOR STATE HOUSE PRESERVATION AND MAINTENANCE	1,600,000	1,600,000	0.00%
MAINE COMMUNITY COLLEGE SYSTEM	111,417,072	110,917,072	-0.45%
(OFFICE OF) TREASURER OF STATE	160,226,608	169,861,801	6.01%
BOARD OF TRUSTEES OF THE UNIVERSITY OF MAINE SYSTEM	390,579,446	404,814,984	3.64%
NEW ENGLAND INTERSTATE WATER POLLUTION CONTROL COMMISSION	15,900	15,900	0.00%
Total General Fund Appropriations	6,407,599,084	6,573,618,441	2.59%

Table D-2

GENERAL FUND REVENUE FORECAST									
SOURCE	FY 2015			FY 2016			FY 2017		
	ORIG	ADJ	BUDGET	ORIG	ADJ	BUDGET	ORIG	ADJ	BUDGET
Sales and Use Tax	1,194,004,518		1,194,004,518	1,127,459,003	218,741,192	1,346,200,195	1,180,620,005	375,634,775	1,556,254,780
Service Provider Tax	50,303,776		50,303,776	51,309,851	7,763,363	59,073,214	52,336,048	13,813,400	66,149,448
Individual Income Tax	1,462,017,200		1,462,017,200	1,541,174,128	(176,410,601)	1,364,763,527	1,603,658,155	(546,667,513)	1,056,990,642
Corporate Income Tax	190,226,769		190,226,769	188,064,279	(1,050,000)	187,014,279	192,608,081	(7,531,355)	185,076,726
Cigarette & Tobacco Tax	134,890,000		134,890,000	133,441,000		133,441,000	132,079,000		132,079,000
Insurance Company Tax	82,250,000		82,250,000	82,700,000		82,700,000	82,700,000		82,700,000
Inheritance & Estate Tax	38,406,991		38,406,991	28,813,460		28,813,460	31,650,671	(14,096,027)	17,554,644
Fines, Forfeits and Penalties	23,000,770		23,000,770	22,988,770		22,988,770	22,979,770		22,979,770
Income from Investments	112,451		112,451	243,658		243,658	597,719		597,719
Transfer from Lottery	57,350,462		57,350,462	56,816,776		56,816,776	57,123,279		57,123,279
Trans for Tax Relief Progs	(59,183,362)		(59,183,362)	(66,771,938)	3,500,000	(63,271,938)	(68,948,340)	(3,180,308)	(72,128,648)
Trans. to Muni. Rev. Share	(62,441,975)		(62,441,975)	(158,218,440)	95,718,440	(62,500,000)	(154,913,582)	154,913,582	-
Other Taxes and Fees	132,333,097		132,333,097	128,995,143	(1,958,260)	127,036,883	129,375,658	(2,159,633)	127,216,025
Other Revenues	49,587,338		49,587,338	37,703,855	55,000	37,758,855	38,919,959	(1,397,351)	37,522,608
TOTAL REVENUE	3,292,858,036	-	3,292,858,036	3,174,719,545	146,359,134	3,321,078,679	3,300,786,423	(30,670,430)	3,270,115,993

TABLE D-3

GENERAL FUND RECOMMENDED REVENUE ADJUSTMENTS			
Detail by Revenue Line for the FY 16-17 Biennium			
Revenue Line and Source of Adjustment		FY16	FY17
Sales and Use Tax	Part H - Extends current tax rates to December 31, 2015 and sets new rates effective January 1, 2016, expands the general sales and use tax base and makes other related changes.	218,741,192	375,634,775
Service Provider Tax	Part I - Increases the service provider tax rate effective January 1, 2016, expands the tax base to basic cable and satellite television services and makes other changes consistent with the changes to the sales and use tax law.	7,763,363	13,813,400
Individual Income Tax	Part K - Phases down the individual income tax top marginal tax rate for tax years beginning after December 31, 2015 and makes other amendments to the tax law.	(176,410,601)	(546,667,513)
Corporate Income Tax	Part K - Phases down the corporate income tax top marginal tax rate for tax years beginning after December 31, 2016 and eliminates the corporate alternative minimum tax for years beginning after December 31, 2015.	(1,050,000)	(7,531,355)
Cigarette and Tobacco Tax		-	-
Insurance Companies Tax		-	-
Estate Taxes	Part J - Increases the estate tax exclusion to match the federal exclusion and then repeals the exclusion effective January 1, 2017.	-	(14,096,027)
Fines, Forfeits and Penalties		-	-
Income from Investments		-	-
Transfer from Lottery		-	-
Transfers for Tax Relief Programs	Part G - Transitions from BETR to BETE.	3,500,000	(3,180,308)
Transfer for Municipal Revenue Sharing	Part L - Phases out Revenue Sharing by July, 30 2016.	95,718,440	154,913,582
Other Revenue	Parts A and H - Anticipates an increase in park fees collected at Mackworth Island and adjusts transfers to the Tourism Fund and the Multimodal Transportation Fund due to changes in the sales and use tax.	55,000	(1,397,351)
Other Taxes and Fees	Parts D and O - Repeals the telecommunications excise, repeals the telecommunications equipment exemption from local property taxation, and increases the amount of real estate transfer tax transferred to the General Fund.	(1,958,260)	(2,159,633)
Total Revenue Adjustments		146,359,134	(30,670,430)

CHART D-1

Fiscal Years 2016-2017
General Fund Projected Appropriations
\$6,573.6
Dollars in Millions

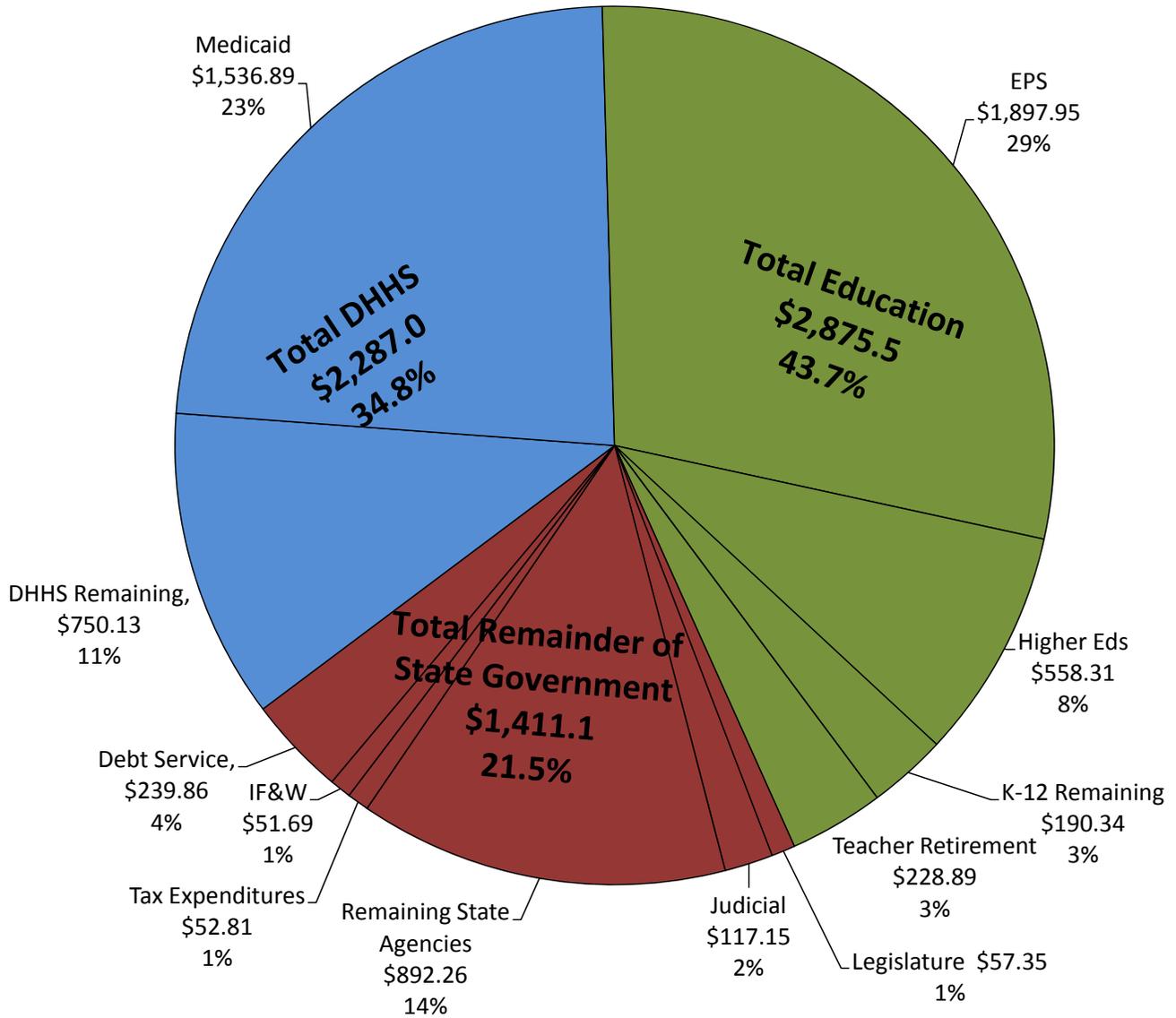
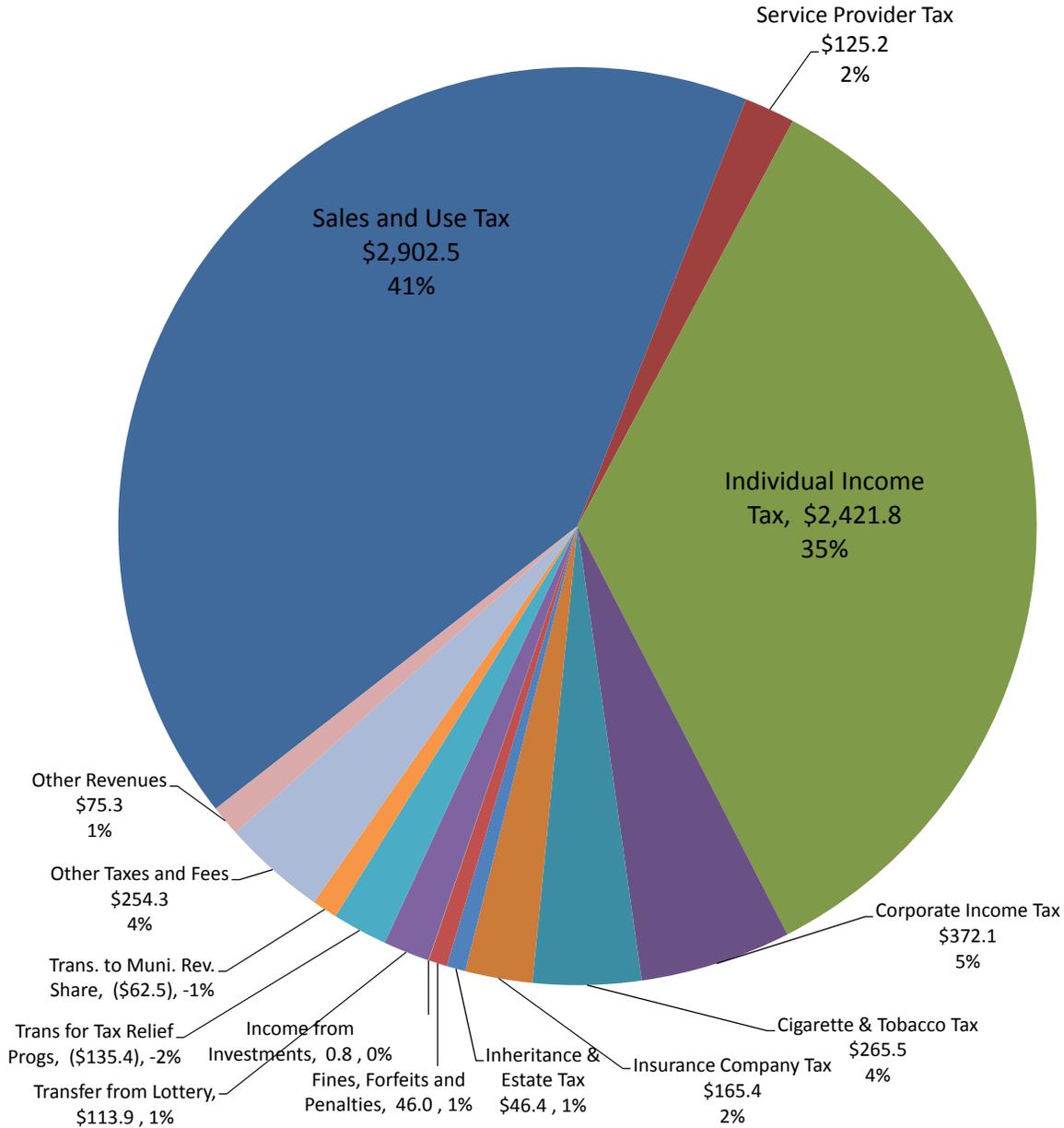


CHART D-2

Fiscal Years 2016-2017
General Fund Forecasted Revenues
\$6,591.2
Dollars in Millions



Summary of Governor's Highway Fund Budget Recommendations

The following tables and charts show in summary form the Governor's Highway Fund budget recommendations for the 2016-2017 biennium. **Table E - 1** shows total Highway Fund allocations by department or agency (including one-time allocations) with percent change for the 2016-2017 biennium compared to the 2014-2015 biennium.

Table E - 2 shows the Highway Fund revenues recommended by the Governor for fiscal year 2015-16 and fiscal year 2016-17. The columns labeled ORIG. represent the Highway Fund revenue forecast of the Revenue Forecasting Committee.

Chart E - 1 shows the Governor's recommended Highway Fund allocations by major program.

Chart E - 2 shows the Governor's recommended Highway Fund revenues by revenue source for the 2016-2017 biennium. These revenues include the base revenue projections of the Revenue Forecasting Committee.

TABLE E-1

HIGHWAY FUND ALLOCATIONS			
	GOVERNOR'S BUDGET		
DEPARTMENT/AGENCY	2014-2015 Biennium	2016-2017 Biennium	PERCENT CHANGE
DEPARTMENT OF ADMINISTRATIVE AND FINANCIAL SERVICES	5,477,226	2,686,043	-50.96%
DEPARTMENT OF ENVIRONMENTAL PROTECTION	66,108	66,108	0.00%
LEGISLATURE	21,125	21,125	0.00%
DEPARTMENT OF PUBLIC SAFETY	51,728,342	56,631,240	9.48%
DEPARTMENT OF THE SECRETARY OF STATE	67,106,717	72,835,684	8.54%
DEPARTMENT OF TRANSPORTATION	508,915,576	497,994,734	-2.15%
TOTAL HIGHWAY FUND ALLOCATIONS	633,315,094	630,234,934	-0.49%

Table E-2

HIGHWAY FUND REVENUE FORECAST									
	FY 2015			FY 2016			FY 2017		
SOURCE	ORIG	ADJ	BUDGET	ORIG	ADJ	BUDGET	ORIG	ADJ	BUDGET
Fuel Tax	217,413,634		217,413,634	220,811,525		220,811,525	224,110,357		224,110,357
Motor Vehicle Registrations & Fees	83,467,472		83,467,472	83,458,472		83,458,472	83,458,471		83,458,471
Inspection Fees	2,982,500		2,982,500	2,982,500		2,982,500	2,982,500		2,982,500
Other Highway Fund Taxes and Fees	1,270,229		1,270,229	1,283,729		1,283,729	1,270,229		1,270,229
Fines Forfeits & Penalties	1,007,998		1,007,998	1,007,998		1,007,998	1,007,998		1,007,998
Income from Investments	105,523		105,523	287,873		287,873	549,141		549,141
Other Revenues	9,726,971		9,726,971	9,192,412		9,192,412	9,192,412		9,192,412
TOTAL REVENUE	315,974,327	-	315,974,327	319,024,509	-	319,024,509	322,571,108	-	322,571,108

CHART E-1

Fiscal Years 2016-2017
Highway Fund Projected Allocations
\$630.2
Dollars in Millions

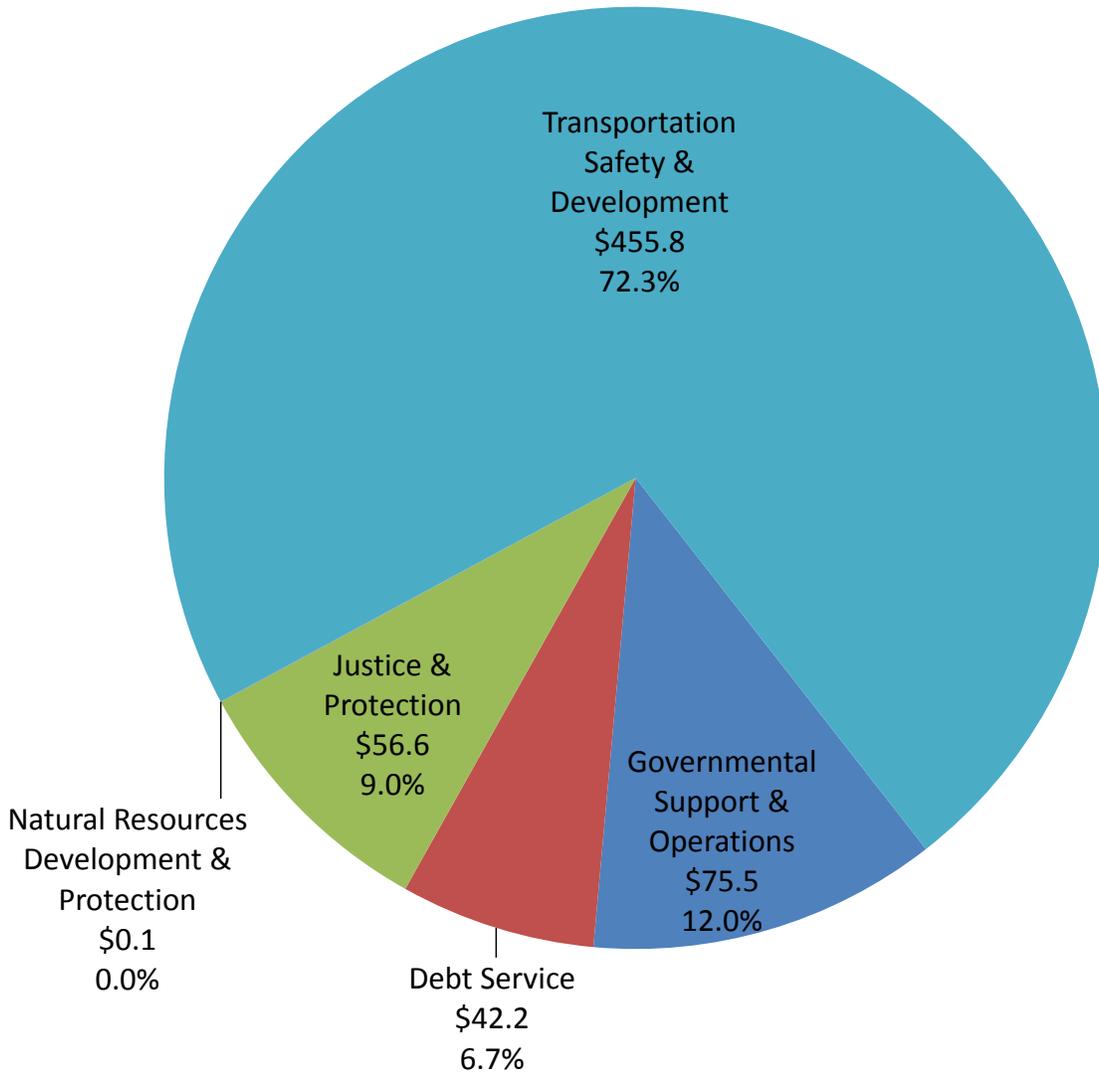
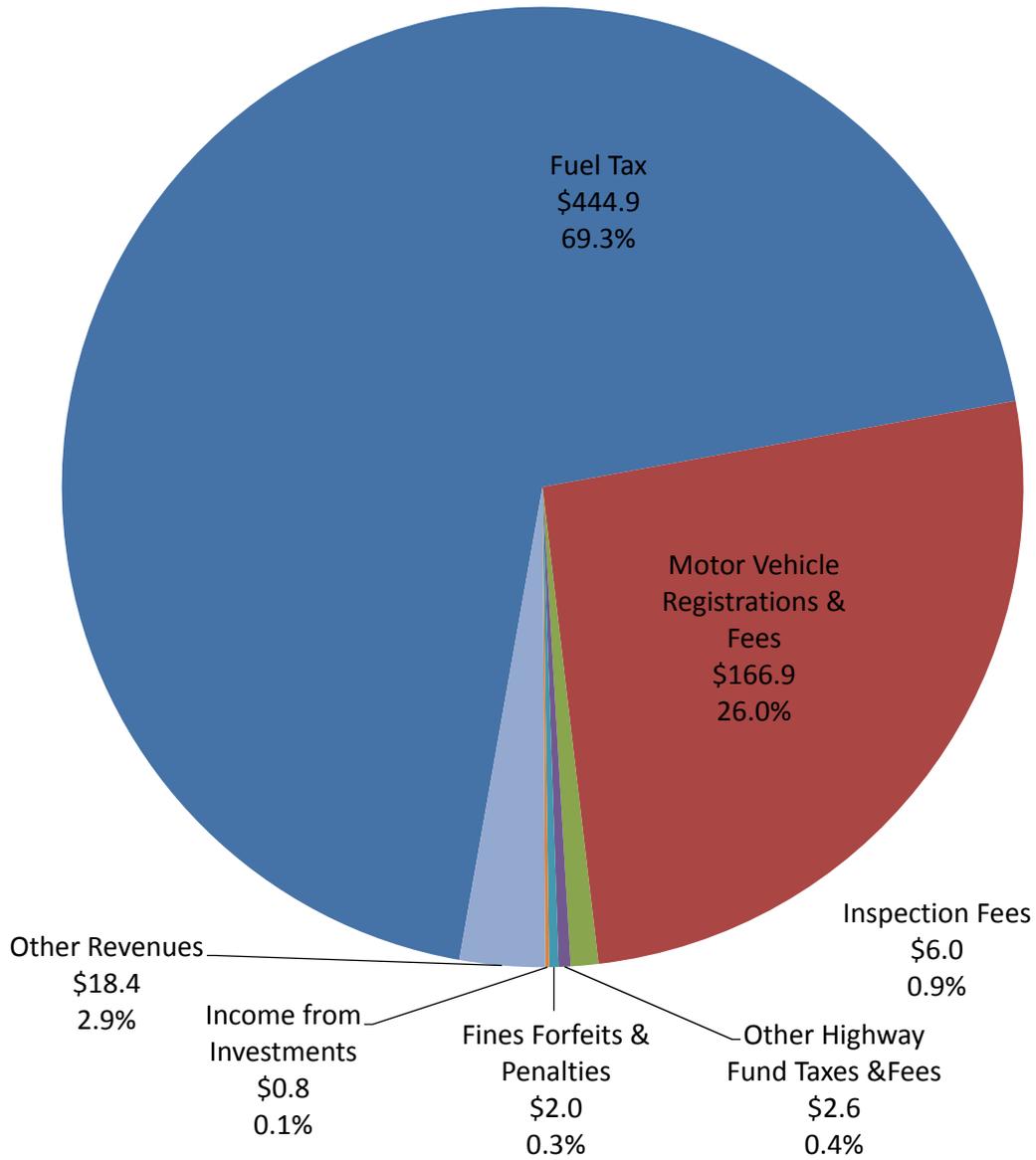


CHART E-2

**Fiscal Years 2016-2017
Highway Fund Forecasted Revenues
\$641.6**



Requested and Recommended Appropriations and Allocations

Judicial Department

Pursuant to 5 MRSA, chapter 149, §1664, sub-§2, the Governor must provide notice when the recommended appropriations and allocations for the Judicial Department differ from the budget request submitted by the Judicial Department, providing an explanation for any differences.

The chart on the following page summarizes the baseline budgets by fund type, for the Judicial Department for each year of the upcoming biennium, for Personal Services, All Other and Capital. It also provides summary information for changes to appropriations and allocations requested by the department and the recommended appropriations and allocations appearing in the Governor's budget.

In all, the department requested an increase in General Fund appropriations of \$9.3 million over the course of the biennium. The Governor's budget for the 2016–2017 biennium recommends total adjustments in appropriations of \$9.2 million. Careful consideration was given to the department's requests, taking into consideration the Chief Justice's rationale for the proposed budget and the needs of the department and within the larger context of the range of needs across state government.

The Judicial Department requested an increase in allocations of federal funds totaling approximately \$709 thousand; based on further work with the Judicial Branch, the Governor's budget recommends an increased allocation of \$520 thousand. Last, the department requested an increase in Other Special Revenue of approximately \$1.64 million; the Governor's budget recommends an increase in allocation of approximately \$1.79 million.

Judicial

	FY 16 Baseline Budget	FY 17 Baseline Budget	Requested Changes FY 16	Requested Changes FY 17	Recommended Changes FY16	Recommended Changes FY17	FY 16 Recommended Budget	FY17 Recommended Budget
GENERAL FUND								
Personal Services	38,360,437	39,589,085	2,335,133	2,430,142	2,305,672	2,817,379	40,666,109	42,406,464
All Other	26,699,948	26,699,948	1,986,044	2,559,530	1,611,364	2,493,217	28,311,312	29,193,165
Capital Expenditures Unallocated								
Total	65,060,385	66,289,033	4,321,177	4,989,672	3,917,036	5,310,596	68,977,421	71,599,629
FEDERAL EXPENDITURE FUNDS								
Personal Services	1,842,633	1,919,142	345,549	363,690	253,539	266,803	2,096,172	2,185,945
All Other	1,088,789	1,088,789					1,088,789	1,088,789
Capital Expenditures Unallocated								
Total	2,931,422	3,007,931	345,549	363,690	253,539	266,803	3,184,961	3,274,734
OTHER SPECIAL REVENUS FUNDS								
Personal Services	477,627	496,717	510,102	533,572	583,158	610,346	1,060,785	1,107,063
All Other	3,241,601	3,241,601					3,241,601	3,241,601
Capital Expenditures Unallocated			300,000	300,000	300,000	300,000	300,000	300,000
Total	3,719,228	3,738,318	810,102	833,572	883,158	910,346	4,602,386	4,648,664
TOTAL	71,711,035	73,035,282	5,476,828	6,186,934	5,053,733	6,487,745	76,764,768	79,523,027

Office of Program Evaluation and Government Accountability

Pursuant to 5 MRSA, chapter 149, §1664, sub-§3, the Governor must provide notice when the recommended appropriations and allocations for the legislative Office of Program Evaluation and Government Accountability (OPEGA) differ from those requested by the Legislative Council, providing an explanation for any such difference.

The Legislative Council did not submit additional budget requests for OPEGA. The Baseline Budget is reflected in the Governor's recommended biennial budget.

Office of Program Evaluation and Government Accountability

	FY 16 Baseline Budget	FY 17 Baseline Budget	Requested Changes FY 16	Requested Changes FY 17	Recommended Changes FY16	Recommended Changes FY17	FY 16 Recommended Budget	FY17 Recommended Budget
GENERAL FUND								
Personal Services	852,292	847,512	-	-	-	-	852,292	847,512
All Other	124,088	124,088	-	-	-	-	124,088	124,088
Capital Expenditures Unallocated								
Total	976,380	971,600	-	-	-	-	976,380	971,600
TOTAL	976,380	971,600	-	-	-	-	976,380	971,600

Research and Development

5 MRSA, chapter 149, §1664, sub-§3-A, establishes a formula for determining a funding level for research and development. In FY10, that formula set the level at not less than 1% of total actual General Fund revenue in FY09. For each successive year for the following decade, that funding level is to increase by at least two-tenths of 1% until funding for research and development is the equivalent to not less than 3% of total actual General Fund revenue of the previous fiscal year.

The funding level recommended for research and development as recommended in the Governor's budget includes an appropriation of \$17.35 million in each year of the biennium to the Maine Economic Improvement Fund, University of Maine System. This request includes an increase of \$2.65 million in each year. The University of Maine System requested an additional \$5.3 million in each year; however, it was reduced as needs were addressed across state government. It also includes a recommended appropriation of just over \$7 million in each year for the Office of Innovation, within the Department of Economic and Community Development. Both of these appropriations are for the support of research and development activities.

This funding level falls short of that which would be otherwise calculated using the formula described above. Careful consideration was made in arriving at the recommended funding levels, as investment in research and development is critical to Maine's economy and future.

Maine Indian Tribal- State Commission

	FY 16 Baseline Budget	FY 17 Baseline Budget	Requested Changes FY 16	Requested Changes FY 17	Recommended Changes FY16	Recommended Changes FY17	FY 16 Recommended Budget	FY17 Recommended Budget
GENERAL FUND								
Personal Services								
All Other	89,114	89,114	22,500	22,500	22,500	22,500	111,614	111,614
Capital Expenditures								
Unallocated								
Total	89,114	89,114	22,500	22,500	22,500	22,500	111,614	111,614
TOTAL	89,114	89,114	22,500	22,500	22,500	22,500	111,614	111,614

Maine Indian Tribal-State Commission

5 MRSA, chapter 149, §1664, sub-§3-B states that if the Governor submits legislation setting forth appropriations or allocations for the Maine Indian Tribal-State Commission that differ from the full budget proposal developed under 30 MRSA, §6212, sub-§ 6, the Governor shall simultaneously submit a report to the joint standing committee of the Legislature having jurisdiction over appropriations and financial affairs and the joint standing committee of the Legislature having jurisdiction over judiciary matters explaining why the Governor's budget legislation differs from that proposal.

The funding level recommended for the Maine Indian Tribal-State Commission does not differ from the requested amount.

Research and Development

	FY 16 Baseline Budget	FY 17 Baseline Budget	Requested Changes FY 16	Requested Changes FY 17	Recommended Changes FY16	Recommended Changes FY17	FY 16 Recommended Budget	FY17 Recommended Budget
GENERAL FUND								
Personal Services	222,253	220,657	9,805	9,443	9,805	9,443	232,058	230,100
All Other	21,503,703	21,503,703	5,290,195	5,290,557	2,640,195	2,640,557	24,143,898	24,144,260
Capital Expenditures Unallocated								
Total	21,725,956	21,724,360	5,300,000	5,300,000	2,650,000	2,650,000	24,375,956	24,374,360
TOTAL	21,725,956	21,724,360	5,300,000	5,300,000	2,650,000	2,650,000	24,375,956	24,374,360

Debt Analysis

General Obligation Bonds (GOs)	Debt secured by state's full faith, credit, and taxing power.	\$399.2 million
Authorized but Unissued GO Bonds	Bonds authorized by voters, but not yet borrowed upon.	\$127.0 million

Note: Table is as of June 30, 2014 and does not reflect new issuance.

Authorized but Unissued Debt: Debt that has been authorized but has not yet been issued

Debt Service: Principal and interest paid, or estimated to be paid, on outstanding debt

General Obligation Debt: General Fund and/or Highway Fund bonds approved by the voters with the full faith and credit of the State.

Interest: That part of debt service, which does not reduced the outstanding debt balance, as it represents the contract or coupon rate of the face amount of the bond payable on a periodic basis.

Outstanding Debt: Debt that has been issued, or is estimated to be issued, but has not yet been retired.

Principal: That part of the debt service which reduces the outstanding balance as it represents payments of the face amount of the bond on specified maturity dates that retire the debt.

GENERAL FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY
June 30, 2014

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2015	65,670,000.00	11,674,237.79	77,344,237.79
2016	50,335,000.00	10,078,820.80	60,413,820.80
2017	39,385,000.00	8,371,339.20	47,756,339.20
2018	36,005,000.00	6,928,067.10	42,933,067.10
2019	31,385,000.00	5,468,019.30	36,853,019.30
2020	22,945,000.00	4,027,831.80	26,972,831.80
2021	22,655,000.00	3,063,500.00	25,718,500.00
2022	16,030,000.00	1,930,750.00	17,960,750.00
2023	11,295,000.00	1,129,250.00	12,424,250.00
2024	11,290,000.00	564,500.00	11,854,500.00
	306,995,000.00	53,236,315.99	360,231,315.99

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HIGHWAY FUND BONDS
DEBT SERVICE REQUIREMENTS TO MATURITY
June 30, 2014

FISCAL YEAR	PRINCIPAL	INTEREST	TOTAL
2015	15,275,000.00	3,914,653.56	19,189,653.56
2016	15,300,000.00	3,265,078.56	18,565,078.56
2017	21,015,000.00	2,600,578.56	23,615,578.56
2018	18,285,000.00	1,691,210.10	19,976,210.10
2019	12,500,000.00	905,540.30	13,405,540.30
2020	7,610,000.00	389,668.00	7,999,668.00
2021	2,210,000.00	110,500.00	2,320,500.00
	92,195,000.00	12,877,229.08	105,072,229.08

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GF + HF	399,190,000.00	66,113,545.07	465,303,545.07
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Appropriations, Allocations, Revenues, and Other Financing Sources and Uses
For Fiscal Years 2014-15 through 2016-17
(pro forma)

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Biennium 2016-2017
Sources				
<u>Beginning Balance</u>				
Unencumbered	2,144,540,598	1,753,106,712	1,376,028,909	1,753,106,712
Encumbered	168,378,364			
	<u>2,312,918,961</u>	<u>1,753,106,712</u>	<u>1,376,028,909</u>	<u>1,753,106,712</u>
<u>Appropriations and Allocation of Undedicated Revenues</u>				
General Fund	3,209,004,055	3,271,886,538	3,301,731,903	6,573,618,441
Highway Fund	321,693,983	310,716,599	319,518,335	630,234,934
	<u>3,530,698,038</u>	<u>3,582,603,137</u>	<u>3,621,250,238</u>	<u>7,203,853,375</u>
<u>Allocation of Dedicated Revenues</u>				
Federal Expenditures Fund	2,730,057,475	2,708,031,116	2,718,698,858	5,426,729,974
Other Special Revenue Funds	1,115,877,244	1,029,531,720	1,042,926,518	2,072,458,238
Federal Block Grant Fund	175,807,573	179,409,137	179,680,116	359,089,253
Internal Service Funds, Enterprise Funds and Other Funds	622,528,423	597,911,619	598,758,523	1,196,670,142
	<u>4,644,270,715</u>	<u>4,514,883,592</u>	<u>4,540,064,015</u>	<u>9,054,947,607</u>
<u>Other Sources</u>				
Additional Fund Resources	12,796,283	116,628,071	82,368,071	198,996,142
	<u>12,796,283</u>	<u>116,628,071</u>	<u>82,368,071</u>	<u>198,996,142</u>
<u>Non-Revenue Receipts</u>				
Transfers - In	638,740,379	561,365,896	566,180,432	1,127,546,328
	<u>638,740,379</u>	<u>561,365,896</u>	<u>566,180,432</u>	<u>1,127,546,328</u>
Total Sources	11,139,424,376	10,528,587,408	10,185,891,665	19,338,450,164
Uses				
<u>Expenditure</u>				
Personal Services	1,053,186,483	1,110,745,237	1,126,494,967	2,237,240,204
All Other	7,346,822,781	7,347,664,664	7,348,368,599	14,696,033,263
Capital Expenditure	352,902,038	149,392,850	196,766,709	346,159,559
Unallocated	8,752,911,302	8,607,802,751	8,671,630,275	17,279,433,026
<u>Other Uses</u>				
Transfers - Out	633,406,362	544,755,748	549,733,569	1,094,489,317
	<u>633,406,362</u>	<u>544,755,748</u>	<u>549,733,569</u>	<u>1,094,489,317</u>
Total Uses	9,386,317,664	9,152,558,499	9,221,363,844	18,373,922,343
Ending Balance				
Lapse to Funds				
Carried Forward	1,753,106,712	1,376,028,909	964,527,821	964,527,821

General Fund Unappropriated Fund Balance Status
For Fiscal Years 2014-15 through 2016-17
(pro forma)

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Biennium 2016-2017
Sources				
<u>Beginning Unappropriated Fund Balance - July 1</u>	12,518,554	7,199,636		7,199,636
<u>Adjustments:</u>				
Adjustments to Unappropriated Fund Balance - Enacted	50,124,651			
Adjustments to Unappropriated Fund Balance - Recommended		1,887,761	1,887,761	3,775,522
<u>Revenues</u>				
Base Revenues	3,290,485,668	3,174,719,545	3,300,786,423	6,475,505,968
Revenues from Enacted Legislation	(29,241,937)			
Revenue Reprojections Prior to December 1, 2014	(13,918,955)			
Revenue Reprojection December 1, 2014	45,533,260			
Recommended Revenue Adjustments	(16,014,150)	146,359,134	(30,670,430)	115,688,704
Total Sources	3,339,487,090	3,330,166,076	3,272,003,754	6,602,169,830
Uses				
<u>Appropriations and Other Additions and Deductions</u>				
Enacted Appropriations	3,287,658,894			
Supplemental Appropriations Recommended for FY15	23,628,560			
Appropriations Recommended for FY 16-17		3,271,886,538	3,301,731,903	6,573,618,441
				-
<u>Adjustments:</u>				
Adjustments to Fund Balance - Enacted	21,000,000			
Adjustments to Fund Balance - Recommended		10,900,000	10,750,000	21,650,000
Total Uses	3,332,287,454	3,282,786,538	3,312,481,903	6,595,268,441
Balance (1)		47,379,538	(40,478,149)	6,901,389
Ending Unappropriated Fund Balance - June 30 (2)	7,199,636	47,379,538	6,901,389	6,901,389
<u>Notes:</u>				
(1) Does not reflect beginning balance for FY17				
(2) Reflects all beginning and ending balances				

Highway Fund Unallocated Fund Balance Status
For Fiscal Years 2014-15 through 2016-17
(pro forma)

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Biennium 2016-2017
Sources				
<u>Beginning Unallocated Fund Balance - July 1</u>	277,729	61,773		61,773
<u>Adjustments:</u>				
Adjustments to Unallocated Fund Balance - Enacted	10,837,717			
Adjustments to Unallocated Fund Balance - Recommended				-
<u>Revenues</u>				
Base Revenues	309,820,019	319,024,509	322,571,108	641,595,617
Revenues from Enacted Legislation	(1,243,279)			
Revenue Reprojections Prior to December 1, 2014	7,397,587			
Revenue Reprojection December 1, 2014				
Recommended Revenue Adjustments				
Total Sources	327,089,773	319,086,282	322,571,108	641,657,390
Uses				
<u>Allocations and Other Additions and Deductions</u>				
Enacted Allocations	314,128,840			
Supplemental Allocations Recommended for FY15	7,565,143			
Allocations Recommended for FY 16-17		310,716,599	319,518,335	630,234,934
<u>Adjustments:</u>				
Adjustments to Unallocated Fund Balance - Enacted	5,334,017			
Adjustments to Unallocated Fund Balance - Recommended		5,710,148	5,696,863	11,407,011
Total Uses	327,028,000	316,426,747	325,215,198	641,641,945
Balance (1)		2,659,535	(2,644,090)	15,445
Ending Unallocated Fund Balance - June 30 (2)	61,773	2,659,535	15,445	15,445
<u>Notes:</u>				
(1) Does not reflect beginning balance for FY17				
(2) Reflects all beginning and ending balances				

Fund for Health Maine Fund Unallocated Fund Balance Status
For Fiscal Years 2014-15 through 2016-17
(pro forma)

	Fiscal Year 2014-15	Fiscal Year 2015-16	Fiscal Year 2016-17	Biennium 2016-2017
Sources				
<u>Beginning Unallocated Fund Balance - July 1</u>	7,278,390	239,781		239,781
<u>Adjustments:</u>				
Adjustments to Unallocated Fund Balance - Enacted				
Adjustments to Unallocated Fund Balance - Recommended				-
<u>Revenues</u>				
Base Revenues	53,434,830	53,894,008	52,913,687	106,807,695
Revenues from Enacted Legislation	8,019			
Revenue Reprojections Prior to December 1, 2014	7,249,701			
Revenue Reprojection December 1, 2014	(7,429,240)			
Recommended Revenue Adjustments				
Total Sources	60,541,700	54,133,789	52,913,687	107,047,476
Uses				
<u>Allocations and Other Additions and Deductions</u>				
Enacted Allocations	53,490,080			
Supplemental Allocations Recommended for FY15	6,809,639			
Allocations Recommended for FY 16-17		53,361,740	53,389,893	106,751,633
<u>Adjustments:</u>				
Adjustments to Unallocated Fund Balance - Enacted	2,200			
Adjustments to Unallocated Fund Balance - Recommended		2,514	2,516	5,030
Total Uses	60,301,919	53,364,254	53,392,409	106,756,663
Balance (1)		769,535	(478,722)	290,813
Ending Unallocated Fund Balance - June 30 (2)	239,781	769,535	290,813	290,813
<u>Notes:</u>				
(1) Does not reflect beginning balance for FY17				
(2) Reflects all beginning and ending balances				

Glossary of Budget Terms

Allotment: The designation of a department or agency's estimated expenditures in each fiscal year budget (called the annual work program) by quarter and line category. Four equal quarters are used each fiscal year. The approved amounts are recorded in the accounting general ledger by quarter and line category to form the basis on which the State Controller authorizes expenditures, in accordance with statute.

Allocations: The total amount of estimated expenditures authorized by the Legislature from resources legally restricted or otherwise designated for specific operating purposes. These resources typically constitute highway funds, federal funds, other special revenue funds, internal service funds, enterprise funds or any other funds, which may be designated for specific purposes by the Legislature.

Alternative Budget: The biennial budget scenario technique in which departments and agencies are required to present revised budget requests for each fiscal year of a biennium as an alternative to the department or agency's original budget proposal.

Appropriations: The total amount of estimated expenditures authorized by the Legislature from unrestricted or undesignated resources in each fiscal year. These resources typically constitute undedicated General Fund resources which are designated by appropriation account and line category in the estimated authorizations to spend of the Legislature.

Biennial Budget: The two year financial plan of the State of Maine which shows for each fiscal year all proposed expenditures, interest and debt, redemption charges, capital expenditures and estimated revenues in support of expenditures and obligations consistent with the Governor's, or Governor-elect's, program priorities, goals and objectives.

Biennium: The two fiscal years, beginning in even numbered fiscal years, which represent the period covered by the biennial budget financial plan of the State of Maine.

Bond Issue: A financing instrument for major capital purchases, projects, repairs, renovations or other limited projects by which the State incurs debt and retires the principal and interest amounts over time.

Dedicated Revenue: Revenue which accrues to a department or agency for use toward designated or legally restricted operational purposes.

Encumbrance: A commitment against allotment for legally binding purchase orders and contracts representing goods and services which have not yet been received. Encumbrances become expenditures and liabilities only when the goods and services are actually received.

Enterprise Fund: A proprietary fund in which goods and services are provided by a state department or agency to the general public through charges based on consumption. Such fund types may or may not be self-sustaining depending upon the cost structure of the agency whereby cost of goods sold, debt interest and other non-operating expenditures are deducted from gross revenue to determine the entity's net income or loss for the fiscal year.

Fiscal Year: The accounting and budgetary cycle of the Maine State Government. The fiscal year commences on the first day of July and ends on the 30th day of June each year.

Full Time Equivalent: The number of positions of less than 52 weeks in a fiscal year authorized by the Legislature for a specific department or agency and program.

Fund: A fiscal and accounting entity with a self-balancing set of accounts showing cash and other financial resources, together with all related liabilities and residual equities or balances, and changes therein, which are segregated for the purpose of carrying on specific activities or attaining certain objectives in accordance with special regulations, restrictions, or limitations.

Internal Service Fund: A self-sustaining, proprietary fund which derives its resources in support of expenditures from service charges to other state departments and agencies and other units of government.

Lapsed Funds: Uncommitted funds remaining in an appropriation account at the close of a fiscal year which are returned to lapsed to the fund from which they were originally appropriated or allocated by the Legislature.

Legislative Count: The number of permanent full time and part time positions authorized by the Legislature for a specific department or agency and program.

Line Category: The expenditure groups represented by the following four classifications to which the Legislature appropriates and allocates funds by department or agency and program: personal services (salaries, wages and benefits); all other (operational support); capital expenditures (capital equipment purchases, real property purchases and facility improvement and construction); and, unallocated (undesignated items with respect to expenditure type).

Program: A grouping of activities and expected results that are directed toward the accomplishment of a set of goals and objectives consistent with statutorily defined missions and represents a department bureau, division or operational entity to which the Legislature appropriates or allocates resources defined by the Legislature.

Undedicated Revenue: Revenue collected by a department or agency but which accrues to a general ledger account for use toward undesignated or unrestricted operational purposes.

Unappropriated Surplus: An account maintained by the State Controller on the books of the State. The balances of all revenue and appropriation accounts not otherwise provided for by law, together with any other necessary adjustments of balances previously closed to the Unappropriated Surplus Account, are closed to this account at the end of each fiscal year.